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# Economic Status of Two-Parent Families With Employed Teens and Young Adults

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*This article examines the economic status of two-parent families and the earnings contribution of employed teens and young adults. Using data from the 1989 Consumer Expenditure Survey, this study describes and compares two-parent families including employed and nonemployed teens ages 14-17 and young adults ages 18-24. Descriptive results indicate that 5.7 million families, or about 63 percent of all two-parent families with an oldest child 14-24 years, had an employed teen or young adult in 1989. About 47 percent of the families with teens, compared with 80 percent of the families with young adults, had an employed child. Average annual earnings by 14- to 17-year-olds were \$1,579, or about 5 percent of before-tax family income. Mean annual earnings by 18- to 24-year-olds were \$7,379, or 16 percent of before-tax family income. Family economic status differed significantly when teens and young adults worked—as revealed by discriminant analysis. Employed teens were more likely to be from upper socioeconomic, White families than were nonemployed teens. Employed young adults also tended to be from upper socioeconomic, homeowner families, compared with nonemployed young adults.*

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The Cooperative Extension System recently made “youth at risk” a national initiative (15). Changes in the employment patterns of family members are responsible, in part, for the social and economic conditions placing our Nation’s youth at risk. (Risk refers to childhood poverty, poor health, physical and substance abuse, teenage pregnancy, depression, and suicide.)

Hayge (4,5), for example, showed there is an increasing proportion of younger wives entering the labor force and an increasing incidence of marital breakup. Greenberger and Steinberg (3) hypothesize that increased labor force participation by women has served as a role model for teens and young adults, encouraging them to work. They found that employed youth frequently neglect their education; are less able to handle stress, leading to increased alcohol and drug use; and, because most are working in suboptimal work environments, their long-term attitudes about work are more cynical than those of their nonemployed counterparts.

Nevertheless, more and more young people are working either part time or full time (1,2,3). Estimates of labor force participation by this group vary widely. As would be expected, teens tend to work part time after school. Young adults, who traditionally left home after high school to attend college or work full time, are more frequently choosing to stay at home with parents, as they go to college or work part time (2).

This trend in increased youth employment has been attributed to the expansion of job opportunities, especially in the service and retail sector; a weakening of the social and practical constraints on employing youth; and increased materialism among teenagers and young adults (3).

Some older children and young adults work to help their families financially. But unlike previous generations, most teens and young adults do not work to keep their families out of poverty (3). Most of the income earned by employed children is spent for their own needs and activities (9,10,13).

Teenage and young adult earners have generated public interest among social scientists, educators, parents, family counselors, policymakers, and those interested in the economic status of children. Whereas parents, educators, and policymakers have traditionally condoned—if not encouraged—employment by youth, research suggests that the social and psychological costs of youth employment, in general, may far outweigh the benefits.<sup>1</sup>

It is beyond the scope of this article to examine why so many young people are employed and the consequent social-psychological impact. This study provides insight into the economic role of youth, relative to the economic status of their families. Two major questions are addressed: “What are the demographic characteristics, income, and expenditures of two-parent families with employed teens and young adults versus their counterparts with teens and young adults who are not working?” and “Are two-parent families with child earners significantly different from similar families without child earners? If so, what demographic, income, and expenditure variables best explain these differences?”

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<sup>1</sup>For a discussion of the social-psychological costs and benefits of youth employment, see Greenberger and Steinberg (3).

## Approach

### Data and Sample

Data for this study are from the interview component of the 1989 Consumer Expenditure Survey (CE) (16). Collected by the Bureau of the Census for the Bureau of Labor Statistics, CE is a national probability sample of about 5,000 consumer units. Data provide a detailed account of U.S. consumer units' demographic characteristics, income, and expenditures. Interviews are conducted in five consecutive quarters using a rotating sample design. The 1989 CE had a response rate of 86 percent with over 20,000 responses.

The final sample consisted of 1,920 two-parent families, reflecting sampling restrictions made on the basis of family composition, labor force characteristics, and completeness of income reported. Families with adult children over 25 years old could not be examined because there were not enough cases. Those with parents who were retired or students (one or both parents) or not living together were deleted because of the uniqueness of their financial situation. Incomplete income reporters, that is, families who did not provide a value for major sources of income such as wages and salaries, self-employment, or Social Security income, were eliminated from the sample to minimize distortion in income estimates.

### Analysis and Variables

A two-part analysis was conducted. First, the demographic characteristics, income, and expenditure patterns of families with child earners were described and then compared with similar families in which the children were not employed. Families with teens (14-17 years old) were described

separately from families with young adults (18-24 years old). Families were classified into the above groups, based on the oldest child's age. It is important to note, however, that earnings from all employed children were included in the analyses. Second, multivariate discriminant analysis was used to determine whether families with child earners were significantly different from their counterparts with nonearner children, based on selected demographic characteristics, including income and expenditure patterns. Resultant significant discriminant functions were interpreted to identify the variables that best characterized family group differences.

Data used in the descriptive analysis were weighted to represent the U.S. population of two-parent families with an oldest child between 14 and 24 years—about 9 million families. Sixty-three percent of the families had children who were employed part or full time. Among families with children 14-17 years old, 47 percent had an employed child, compared with 80 percent of families with young adults 18-24 years old.

In contrast, unweighted data were used in the discriminant analyses. Since these analyses are inferential in nature, and the precision of inference is a function of the number of cases that are free to contribute to variance in the data, the use of unweighted data is appropriate here.

In all, four separate descriptive discriminant analyses were performed and interpreted using interval level or dichotomous variables. The first discriminant analysis investigated whether 13 demographic variables could distinguish between two-parent families with teen earners ages 14-17 (Group 1: unweighted  $n=474$ ) and those with teen nonearners ages 14-17 (Group 2: unweighted  $n=514$ ). A second discriminant analysis was

conducted to determine whether the same 13 demographic variables could differentiate between families with young adult earners ages 18-24 (Group 3: unweighted  $n=758$ ) and similar families in which young adults were not employed (Group 4: unweighted  $n=174$ ). For greater statistical precision, a 25-percent random sample of families with young adult earners (selected with a random start) was used in discriminant analyses to balance the sample size between young adult earner and nonearner families (6,7,14).

Demographic variables included: family size, father's age, mother's age, father's education level (high school graduate=1/nongraduate=0), mother's education level (high school graduate=1/nongraduate=0), employment status of father (employed=1/not employed=0), employment status of mother (employed=1/not employed=0), father's race/origin (White=1/minority=0), mother's race/origin (White=1/minority=0), housing tenure (own=1/rent=0), residence (urban=1/rural=0), total family before-tax income, and total annual expenditures.

A third and fourth discriminant analysis examined whether families with and without employed teens and young adults could be differentiated on the basis of nine expenditure variables: housing, transportation, food at home, food away from home, clothing, education, retirement, entertainment, and other.

**Table 1. Characteristics of two-parent families<sup>1</sup> with and without employed children, ages 14-24, 1989**

Family characteristics	Two-parent families Oldest child				Family characteristics	Two-parent families Oldest child			
	14 - 17 years		18 - 24 years			14 - 17 years		18 - 24 years	
	Employed	Not employed	Employed	Not employed		Employed	Not employed	Employed	Not employed
Number of families (weighted in thousands) . . . . .	2,203	2,452	3,471	861	Father's education				
Family size . . . . .	4.3	4.1	3.9	4.0	Elementary . . . . .	2.4	6.0	7.5	9.4
Number of earners . . . . .	2.9	1.7	3.1	1.8	Some high school . . . . .	7.5	11.0	9.3	12.2
Number of employed children . . . . .	1.1	0	1.3	0.1 <sup>2</sup>	High school graduate or some college . . . . .	59.8	55.6	52.9	48.4
Number of autos . . . . .	1.8	1.6	2.5	1.9	College graduate or more . . . . .	30.3	27.5	30.2	30.0
Number of vehicles . . . . .	3.4	2.9	4.0	3.2	Mother's education				
Age					Elementary . . . . .	1.8	7.9	5.9	4.9
Father . . . . .	42.4	42.3	48.5	49.6	Some high school . . . . .	6.9	8.9	8.5	11.8
Mother . . . . .	39.8	39.6	46.3	45.8	High school graduate or some college . . . . .	74.6	62.8	67.6	64.0
					College graduate or more . . . . .	16.7	20.4	18.0	19.3
Family type <sup>3</sup>					Father's race/origin				
Traditional . . . . .	13.6	23.3	21.6	23.5	White (European American) . . . . .	91.5	79.5	85.3	83.1
Dual earner . . . . .	82.2	71.0	73.5	69.8	Afro-American, Native American, or Asian American . . . . .	6.1	10.6	8.4	10.5
Other . . . . .	4.2	5.6	4.9	6.7	Hispanic . . . . .	2.5	9.9	6.3	6.4
Employment status					Mother's race/origin				
Oldest child					White (European American) . . . . .	90.2	78.3	84.9	79.1
Full time . . . . .	3.9	NA	28.1	NA	Afro-American, Native American, or Asian American . . . . .	6.5	9.8	8.4	10.5
Part time . . . . .	96.1	NA	71.9	NA	Hispanic . . . . .	3.3	11.9	6.7	10.4
Not employed . . . . .	NA	100.0	NA	100.0	Housing tenure				
Father					Own . . . . .	85.9	79.1	88.9	80.8
Full time . . . . .	81.1	79.4	82.5	77.0	Rent . . . . .	14.1	20.9	11.1	19.2
Part time . . . . .	16.6	16.6	13.7	18.6	Residence				
Not employed . . . . .	2.3	4.0	3.8	4.4	Rural . . . . .	25.4	18.9	12.3	11.4
Mother					Urban . . . . .	74.6	81.1	87.7	88.6
Full time . . . . .	42.6	35.7	34.0	30.3					
Part time . . . . .	41.4	37.3	40.7	41.3					
Not employed . . . . .	16.0	27.1	25.3	28.4					

<sup>1</sup>Data are for two-parent families who were complete income reporters. Parents who were retired or students or not living together were excluded.

<sup>2</sup>Some child other than the oldest was employed.

<sup>3</sup>In traditional families, the father is employed, the mother takes care of the family; in dual-earner families, the father and mother are employed; and in other families, the mother is employed, but the father is not employed or both parents are not employed.  
NA = Not applicable.



## Characteristics of Families With Employed and Nonemployed Children

### Demographic Characteristics

Table 1 presents the demographic characteristics of two-parent families with child earners and nonearners in 1989.

**Families With Employed Teens.** Of two-parent families with children 14-17 years old, about 47 percent had an employed oldest child. Families with teen earners had 4.3 family members, on average, including 1.1 child earner. Most (82 percent) of the employed teens were from dual-earner families.

Parents of teen earners tended to be middle-aged (early 40's), employed, high school graduates, White, homeowners, and living in urban areas. About 43 percent of the mothers were employed full time, and 41 percent worked part time in paid employment outside the home.

In contrast, families with teens who were not employed were slightly smaller, had fewer earners, and were more likely than families with

employed teens to be traditional rather than dual-earner families. The parents of teen nonearners were the same age (early 40's) as their earner counterparts, slightly less educated (although a greater percentage of mothers were college educated), more likely to be minorities, renting, or living in urban areas.

**Families With Employed Young Adults.** About 80 percent of the two-parent families with an oldest child 18-24 years had an employed young adult. Families with young adult earners had 3.9 members, on average, including one young adult earner.

Parents with employed young adults were most likely to be in their mid- to late-40's, employed, high school graduates, White, homeowners, or living in urban areas. Most mothers of young employed adults were employed (34 percent full time and 41 percent part time), but 25 percent did not work in paid employment outside the home.

In contrast, families with young adult nonearners were, on average, slightly larger, more likely than

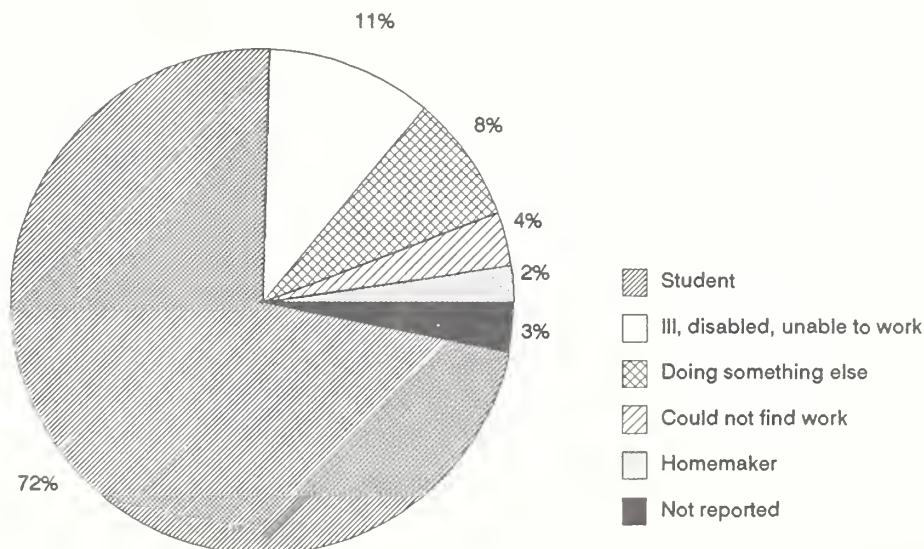
families with young adult earners to be traditional families or a family type other than dual-earner, minorities, renting, or living in urban settings.

**Families With Nonemployed Teens and Young Adults—Reasons for Not Working.** Teens and young adults gave similar reasons for not working: student; ill, disabled, unable to work; could not find work; homemaker; or doing something else. But the percentage of those reporting a particular reason for not working varied between teens and young adults.

For example, about half (53 percent) of the teens ages 14-17 were not employed. As would be expected, almost all (97 percent) nonemployed teens were students. The other 3 percent indicated they could not find work or were doing something else.

In contrast, only about 20 percent of the young adults ages 18-24 living at home were not working. Most nonemployed young adults were students (72 percent) (figure 1). Eleven percent of this older age group were ill, disabled, or unable to work; 8 percent reported they

Figure 1. Reasons why oldest child, age 18-24, did not work in 1989



were doing something else; 4 percent could not find work; 2 percent were homemakers; and 3 percent did not indicate a reason for not working.

### Children's Earnings and Family Income

Table 2 presents children's earnings and average family income estimates. In 1989, 2.2 million families with teens and 3.5 million families with young adults had at least one employed child. Teen earners worked almost exclusively part time (96 percent). On average, they earned \$1,579 annually, about \$30 a week or \$132 each month. Teen earnings were about 5 percent of 1989 before-tax family income (calculated on a family-by-family basis).

Most young adults also worked part time but about 28 percent of this group worked full time. Young adults, on average, earned \$7,379 annually or 16 percent of 1989 before-tax family income—about \$142 a week or \$615 a month.

Children's earnings, as a percentage of before-tax family income, varied by family type (figure 2). Children in dual-earner families earned the lowest percentage of family income. In contrast, children in traditional families (father employed, mother homemaker) and families other than dual earner or traditional (mother only employed or neither parent employed) tended to earn a larger percentage of family income.

Overall, families with teen earners had lower average family income than families with young adult earners because teens earned less, on average, than young adults. Average annual before-tax income of families with teen earners was \$48,926, compared with \$54,031 for families with young adult earners. Mean income of families with teen earners was about 91 percent of young adult earners' family income and 82 percent on a per capita basis.

**Table 2. Two-parent family income, children's earnings, and family expenditures, by age and employment status of oldest child, 1989**

Income and expenditures	Age of oldest child			
	14 - 17 years		18 - 24 years	
	Employed	Not employed	Employed	Not employed
Before-tax income . . . . .	\$48,926	\$41,535	\$54,031	\$45,776
After-tax income . . . . .	44,051	38,301	48,484	41,237
Per capita before-tax income . . . . .	11,378	10,130	13,854	11,444
Children's earnings <sup>1</sup> . . . . .	1,579	0	7,379	0
Oldest child's earnings <sup>2</sup> . . . . .	1,443	0	6,618	0
<b>Expenditures</b>				
Total annual expenditures . . . . .	\$41,292	\$36,003	\$42,536	\$41,781
Housing . . . . .	11,298	10,674	10,483	11,257
Transportation . . . . .	9,703	6,905	10,351	7,717
Food at home . . . . .	4,636	4,644	4,792	5,037
Food away from home . . . . .	2,010	1,642	2,040	2,090
Retirement . . . . .	4,198	3,675	4,888	4,227
Clothing . . . . .	2,358	2,223	2,266	2,462
Entertainment . . . . .	2,343	2,208	2,242	3,475
Education and reading . . . . .	820	816	1,348	1,277
Other <sup>3</sup> . . . . .	3,926	3,216	4,126	4,240

<sup>1</sup>Based on wage and salary earnings of 80 percent of all children who indicated full- or part-time employment status, ages 14-24; 20 percent of employed children did not report earnings.

<sup>2</sup>Based on wage and salary earnings of oldest child, ages 14-24; about 80 percent reported earnings.

<sup>3</sup>Other includes life insurance, health care, tobacco, alcohol, cash contributions, personal care, and miscellaneous expenses.

### Family Expenditures

Average annual expenditures reported by families with employed and nonemployed teens were \$41,292 and \$36,003, compared with \$42,536 and \$41,781 in families with employed and nonemployed young adults (table 2). Expenditure shares for food away from home, clothing, education, and other expenses were fairly stable across family types. In contrast, families with employed children spent proportionately more for transportation and less for food at home than comparable families with nonemployed children.

Notably, families with nonemployed young adults spent proportionately more for entertainment than the other family types.

Overall, families with teen earners spent about 94 percent of their after-tax income. In contrast, families with employed young adults spent 88 percent of their after-tax income, indicating they had slightly more savings than those with teen earners.

## Comparing Families With and Without Employed Teens and Young Adults

As previously noted, four multivariate descriptive discriminant analyses were conducted to determine if families with employed teens and young adults differed significantly from families with nonemployed teens and young adults. The dichotomous group variable in each of the four analyses consisted of families with child earners and families in which the children were not employed.

Discriminant analysis is a useful statistical technique for explaining group (a nominal or categorical variable) differences in terms of multiple correlated response (interval level) variables (6,14). In the two-group case, discriminant analysis yields a linear combination of response variables (discriminant function) that maximally separates the two groups. Interpretation of the discriminant function not only reveals which variables contribute

to group separation but explains, in some cases, group differences in terms of higher inference variables. To test whether selected demographic and expenditure variables could be used to significantly distinguish between families with and without child earners, the Wilks' lambda test statistic ( $\Lambda$ ) was computed and then transformed into a chi-squared statistic ( $X^2$ ) (14).

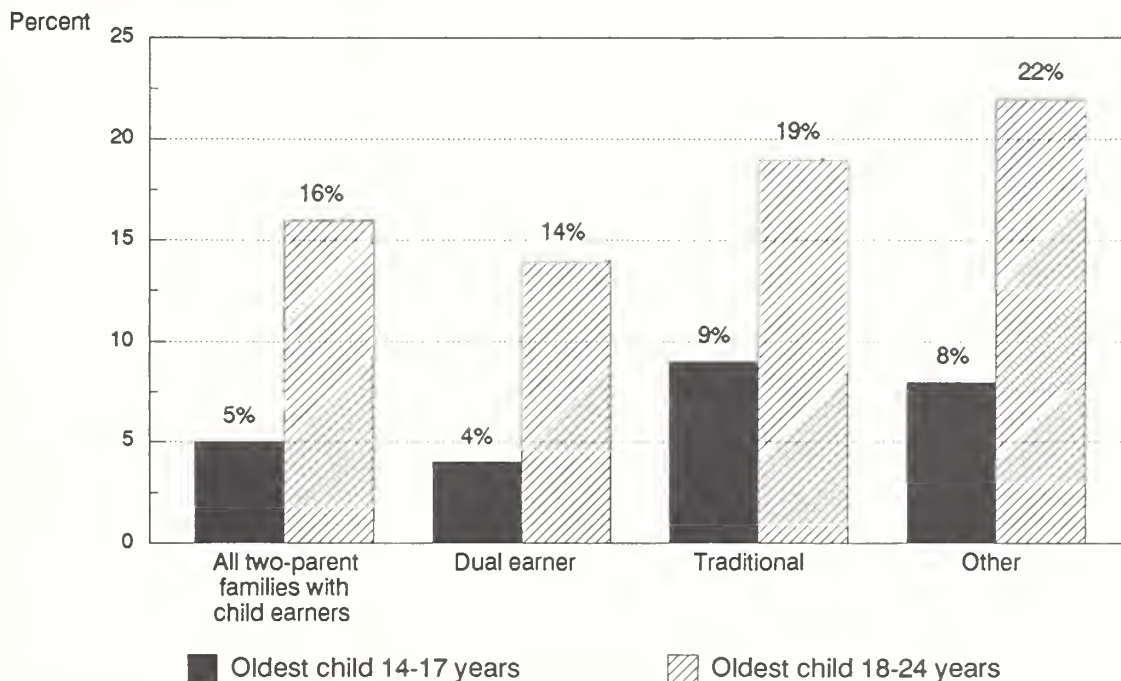
For the first analysis, families with teen earners ages 14-17 were compared with nonearners, relative to 13 demographic variables. The Wilks' lambda ( $\Lambda = 0.92$ ) was significant on transformation to Bartlett's chi-square ( $X^2 = 82.91$ ,  $p < .001$ ) (table 3, p. 8). Structure coefficients (correlations of demographic variables with the discriminant function) showed that mother's and father's race (0.60 and 0.60) and before-tax income (0.57) were associated most prominently with family group differences. Also important, but to a lesser extent, were housing tenure (0.42), mother's education (0.42), total

annual family expenditures (0.39), mother's employment status (0.35), and father's education (0.31). All univariate F tests associated with discriminating variables cited above were significant at the 0.005 level or better.

At a high level of inference, the discriminant function seemed to be distinguishing between families with and without teen earners on a race/origin and socioeconomic status dimension. At a lower inference level, two-parent families with employed teens were more likely to be White, with moderately high incomes, homeowners, with highly educated parents, moderately high annual expenditures, and mothers who were employed.

A second discriminant analysis compared families with young adult earners ages 18-24 with similar families with nonemployed young adults. The same 13 demographic characteristics were used. Once again, the discriminant function was highly significant ( $\Lambda = 0.94$ ;  $X^2 = 22.89$ ,  $p < .05$ ), but discrimination

**Figure 2. Percentage of before-tax income earned by children, ages 14-24, in two-parent families, 1989**





**Table 3. Discriminant analyses of demographic and expenditure variables by age and employment status of oldest child, 1989**

Demographic characteristics			Expenditures		
Variables	Univariate F tests	Discriminant structure coefficients <sup>1</sup>	Variables	Univariate F tests	Discriminant structure coefficients <sup>1</sup>
Discriminant 1: Oldest child 14 - 17 years (df = 1/986)					
Mother's race	31.45*	.601	Retirement	20.85*	.903
Father's race	31.44*	.601	Food away from home	5.58*	.467
Before-tax income	27.80*	.565	Transportation	5.39*	.459
Housing tenure	15.44*	.421	Education and reading	4.25*	.408
Mother's education	15.38*	.420	Housing	4.20*	.405
Total expenditures	13.25*	.390	Clothing	2.87	.335
Mother's employment status	10.52*	.348	Other <sup>2</sup>	2.80	.331
Father's education	8.44*	.311			
*p < .005			*p < .05		
Wilks' Lambda = .919		Chi square = 82.912 (df = 13)	Wilks' Lambda = .975		Chi square = 25.115 (df = 9)
p < .001			p < .005		
Discriminant 2: Oldest child 18 - 24 years (df = 1/362)					
Before-tax income	14.50*	.776	Retirement	9.22*	.614
Housing tenure	7.63*	.563	Transportation	7.89*	.568
			Food at home	2.59	-.325
*p < .01			*p < .005		
Wilks' Lambda = .938		Chi square = 22.894 (df = 13)	Wilks' Lambda = .937		Chi square = 23.389 (df = 9)
p < .05			p < .005		

<sup>1</sup>Only structure coefficients calculated from the within group correlation matrix that exceeded .30 are reported in this table.

<sup>2</sup>Other includes life insurance, health care, tobacco, alcohol, cash contributions, personal care, and miscellaneous expenses.



was not as pronounced as in the previous analysis. Univariate F tests were significant at the 0.05 level or better.

The second discriminant analysis also appeared to discriminate between families with and without young adult earners on a socioeconomic status dimension: before-tax income and housing tenure were the only two distinguishing variables. Families with young adult earners tended to have higher before-tax family income and were more likely to be homeowners than comparable families with nonemployed young adults. There were no significant differences between families with and without young adult earners relative to family size, residence (urban/rural), total annual family expenditures, or parents' age, education, race, or employment status.

A third discriminant analysis compared families with and without teen earners on nine expenditure variables. A highly significant discriminant function ( $\Lambda=0.98$ ;  $X^2=25.12$ ,  $p<.005$ ) and five significant univariate F tests ( $p<.05$ ) indicate that families with employed teens spend differently than comparable families with teens who are not employed. Families with employed teens had significantly higher retirement expenses, that is, deductions for government retirement, railroad retirement, private pensions, self-employment retirement plans, and Social Security expenses. Also significant, although not as pronounced, were greater expenditures for food away from home, transportation, education, and housing than in families without employed teens.

Overall, expenses for clothing, food at home, entertainment, and other expenses (life insurance, health care, tobacco, alcohol, cash contributions, personal care, and miscellaneous) were not significantly different for families with and without employed teens. Although clothing and other expenses helped to explain the discriminant function

(structure coefficients over 0.30), they were not important indicators of group differences (univariate F's were not significant).

Results suggest that families with employed teens have greater retirement savings and are financially better off than those with teens who are not working. Retirement savings may be borrowed against in the future to finance the children's college education.

The fourth discriminant analysis compared families with and without employed young adults on the same nine expenditure variables. Expenditures were significantly different overall ( $\Lambda=0.94$ ;  $X^2=23.39$ ,  $p<.005$ ), but not as many individual expenditures differed as in the analysis of families with employed and nonemployed teens. Results suggest that retirement and transportation expenses are significantly higher in families with employed young adults.

Although expenditures for food at home help to interpret the discriminant function, food expenses were not significantly different for families with and without employed young adults, as indicated by the univariate F test. Other spending patterns did not distinguish between families with and without employed young adults.

## Summary and Discussion

Findings from this study augment current knowledge of families with children who work in paid employment, their earnings and expenditures, and the relative economic contribution made by employed children to family economic status. Using income data from a nationally representative sample of two-parent families, this analysis expands on previous work (3,4,5,8,9,10,11,12,13), providing a national assessment of two-parent families with employed teens and young adults, and children's role in the economic status of two-parent families.

A major contribution of this research is empirical support for the intuitive idea that two-parent families with children who work are different from those with children who are not employed. Multivariate discriminant analysis showed how families with employed teens and young adults differ from their non-earner counterparts. Specifically, and most importantly, parents with employed teens ages 14-17 were more likely than their counterparts with nonemployed teens to be highly educated, White, homeowners, with moderately high before-tax income and total annual expenditures. Parents of young adult earners ages 18-24 had higher family incomes and were more likely to own their own homes than parents of young adult nonearners.

A comparison of expenditure patterns between families with and without teen earners showed that families with employed teens spent more for retirement-related investments, food away from home, transportation, education, and housing, than comparable families with nonemployed teens. Families with young adult earners also had significantly greater retirement-related investments and transportation expenses than those with young adult nonearners.


Although teens did not make a significant contribution to family income, a comparison of the income and expenditure patterns of families with and without employed teens suggests that families with employed teens may be better off financially than their nonemployed counterparts. This supports findings by Greenberger and Steinberg (3) who showed that families with employed youth are usually White and middle-class, whereas poor youngsters are typically the least likely to be employed. The mothers of employed teens appear to play an important role in their decision to work, since mother's characteristics (race, education, and employment status) were significantly different for employed and nonemployed teens.

In light of the finding that young adults make a significant contribution to family income, it is not surprising that before-tax income is higher in these families than in families with nonemployed young adults. What is surprising is that except for retirement and transportation expenses, there were no significant differences in the expenditure patterns of families with and without employed young adults. Since it was not possible to determine whether employed young adults were living with parents for free or reimbursing parents for living expenses, the relative contribution employed young adults make to family economic status remains unclear.

Further research into the economic role of children and their contribution to family economic status is needed. Since CE data (the data source used in this study) are primarily used to track consumer expenditures, a replication study using a different source of national income data such as the Current Population Survey (CPS) or Survey of Income and Program Participation (SIPP) would be desirable.

Additional studies of children as consumers—what children earn, save, spend, and the consequent social, psychological, and economic impact—are critical to our understanding of the economic role of children relative to family economic status.

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# Money Contributions to Religion, Charity, Education, and Politics

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*Fifty-seven percent of consumer units made money contributions to religious, charitable, educational, or political causes in 1988-89. The median donation was \$48. Data from the 1989 Consumer Expenditure Survey are used to determine characteristics of consumer units that made these donations. Results show that 7 in 10 of the contributors had incomes above \$35,000; 7 in 10 had a college degree or more; 6 in 10 were married couples, with or without children; and 6 in 10 were at least 45 years old. Forty percent of the consumer units gave to religion, 39 percent gave to charity, 7 percent gave to education, and 5 percent gave to politics. Results provide data to policymakers and others interested in the socioeconomic and demographic characteristics of contributors and noncontributors, median money contributions made by consumer units, and types of contributions made.*

## Introduction

At State and local levels, the gap between available funds and what is needed to meet current demands for goods and services is widening (5). Supplementing Federal funds with contributions is one strategy some communities are using to narrow that gap (1,6).

As community agencies and city and county governments seek money donations, and as consumer units make decisions about money donations, answers to several questions may serve as a basis for action.

Overall, what percentage of households donate money income? How much money income is given? What percentage of before-tax family income is donated? Who contributes?

This article provides descriptive information on selected socioeconomic and demographic characteristics of consumer units<sup>1</sup> that donated money income to religion, charity, education, and politics in 1988-89. Information on median and mean contributions is presented, but the focus is on median contributions made by all consumer units interviewed. The median is especially useful because the data were skewed: contributions ranged from none to \$33,000.

<sup>1</sup>A consumer unit consists of either: (1) all members of a particular housing unit who are related by blood, marriage, adoption, or other legal arrangements; (2) two or more people living together who pool their incomes to make joint expenditure decisions; or (3) a person living alone or sharing a household with others or living as a roomer in a private home or lodging house or in permanent living quarters in a hotel or motel, but who is financially independent. To be considered financially independent, at least two of the three major expense categories (housing, food, and other living expenses) have to be provided by the respondent.

## Source of Data

Data for this study are from the interview component of the 1989 Consumer Expenditure Survey (CE) (4), conducted by the Bureau of the Census for the Bureau of Labor Statistics (BLS). The CE is an ongoing survey that collects data on household expenditures, income, and major socioeconomic and demographic characteristics. A national sample of consumer units is interviewed once each quarter for five consecutive quarters; the first interview is used for bounding purposes. Using a rotating sample design, about one-fifth of the sample is replaced each quarter. The 1989 CE, with a response rate of 86 percent, contains information from about 20,000 quarterly interviews. Income data are annual and expenditure data for cash contributions are for the "past 12 months."

### Religious contributions:

Donations to weekly collections or to causes sponsored by a religious organization. *Excluded* are membership dues to church-related groups or expenses for schools run by a religious order.

### Charitable contributions:

Donations to such organizations as the American Cancer Society, United Way, Red Cross, United Black Fund, CARE, Save the Children Fund, Project Hope, Helen Keller Fund, Multiple Sclerosis Society, March of Dimes, Muscular Dystrophy Association, and the United Cerebral Palsy Fund.

### Educational contributions:

Donations to alumni funds and cash donations to libraries and scholarship funds of public, private, and parochial schools that offer an academic diploma or certificate. *Excluded* is the cost of tuition.

### Political contributions:

Donations to a political party or to a specific candidate.

Findings in this study are based on responses by 4,396 consumer units who were asked the amount of religious, charitable, educational, political, or other<sup>2</sup> cash contributions made during the past 12 months. This item is asked only in the fifth interview. This interview occurs throughout the year, depending on when the consumer unit entered the survey. So, during any quarter, only one-fifth of all consumer units are asked about contributions. The sample was unweighted as only consumer units having their final interview were asked about their annual contributions, and BLS weights apply to the entire sample in a quarter.

Only consumer units who gave complete income information were included in this study. (Complete income reporters provide values for major sources of income such as wages and salaries, self-employment income, and Social Security income. However, even complete income reporters may not have provided a full accounting of all income from all sources.)

## Results

Over one-half of the consumer units contributed to religion, charity, education, or politics (figure 1). About 40 percent of the consumer units contributed to religious organizations, 39 percent to charitable causes, 7 percent to educational institutions, and 5 percent to political causes.

### Contributions From Two Perspectives

Because many consumer units did not make cash contributions, whereas some contributed a great deal, the median statistic better describes contribution level. A comparison of mean and median contributions illustrates why it was

<sup>2</sup>Less than 5 percent of the consumer units made "other" contributions; therefore, that category is not included.

Figure 1. Types of contributions, 1988-89

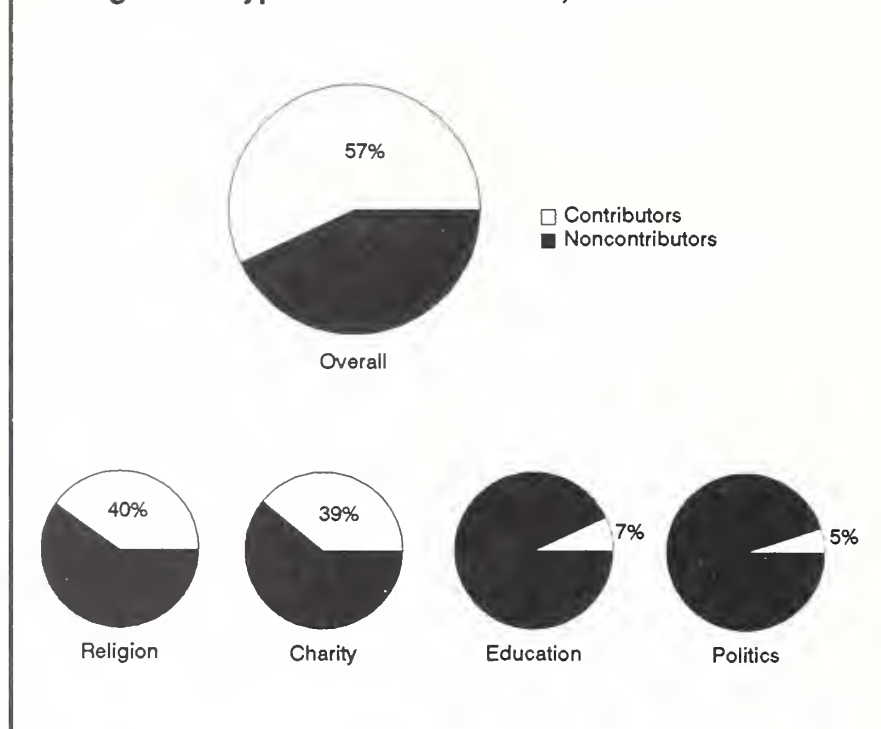


Table 1. Cash contributions, 1988-89

Type of contribution	All consumer units		Contributors only	
	Median	Mean	Median	Mean
Overall <sup>1</sup>	\$48	\$492	\$300	\$859
Religion	0	368	362	919
Charity	0	96	100	248
Education	0	20	73	305
Politics	0	9	50	165

<sup>1</sup>The sum of cash contributions to religion, charity, education, and politics.

important to focus on median contributions when considering contributions by all consumer units.

The overall mean contribution by all consumer units was \$492 or 2 percent of their before-tax family income (table 1). Mean contributions were \$368 for religion, \$96 for charity, \$20 for education, and \$9 for politics. The overall mean contribution for contributors only was \$859, which was 3 percent of their

before-tax family income. Among contributors only, \$919 was donated to religion, \$305 was donated to education, \$248 to charity, and \$165 to politics.

The median contribution falls at the 50th percentile, with half of the sample donating less and half donating more. Median overall contributions by all consumer units was \$48: half (n=2,198) of the consumer units interviewed donated less than \$48 overall to religion,



charity, education, and politics. The overall median contribution for contributors only was \$300: half of the contributors-only group donated less than \$300 overall to religion, charity, education, and politics.

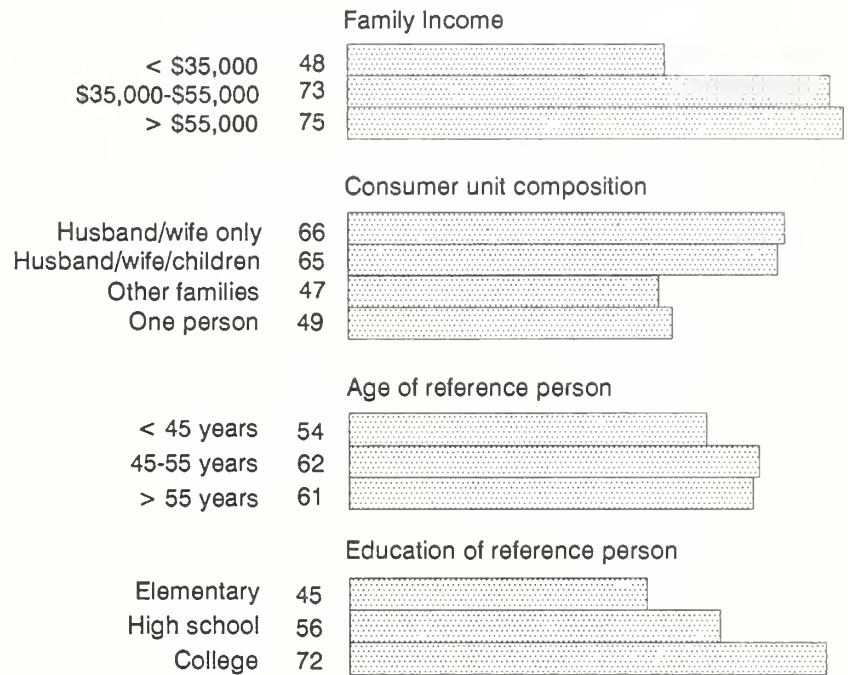
### Contributions and Socioeconomic and Demographic Characteristics of Consumer Units

Predictably, there were more contributors among those with incomes above \$35,000 than those with lower incomes, about a 3-to-2 ratio (figure 2). By family type, about two-thirds of husband and wife families both with and without children were contributors, compared with about half of those in other families<sup>3</sup> and in one-person consumer units.

A higher percentage of consumer units with reference persons<sup>4</sup> age 45 and over were contributors, compared with younger consumer units (figure 2). However, age was less likely to distinguish between contributors and noncontributors than income, education, and family type. As educational level of the reference person increased, the percentage of contributors in each category rose from 45 to 72 percent.

Median contributions, by socioeconomic and demographic characteristics, are given in table 2. At the 25th percentile, only consumer units with incomes above \$55,000 made contributions (table 2). At the median or 50th percentile, consumer units with incomes over \$35,000, husband and wife families both with and without children, and reference persons with at least

**Figure 2. Percent contributing by socioeconomic characteristics, 1988-89**



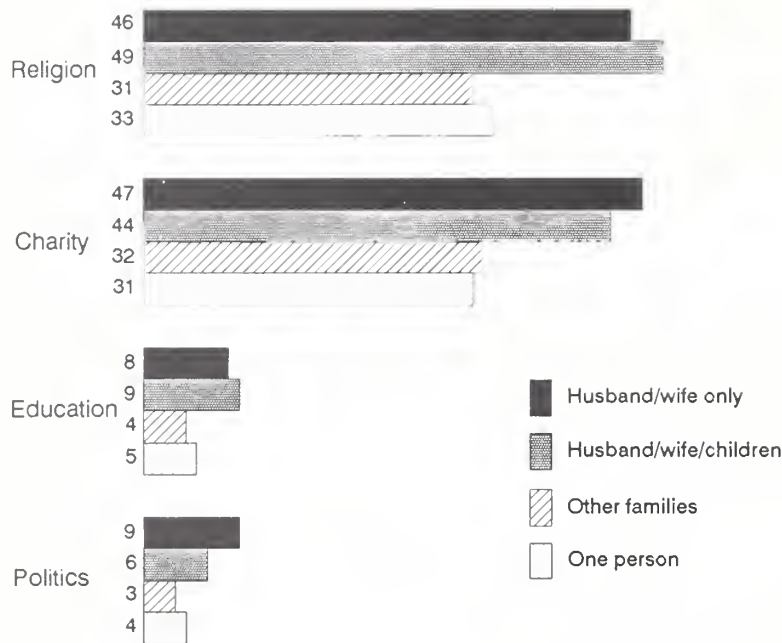
**Table 2. Percentile contributions by socioeconomic characteristics, all consumer units, 1988-89**

Socioeconomic characteristics	Percentiles		
	25th	50th (Median)	75th
Overall contribution . . . . .	0	\$ 48	\$ 400
<b>Family income</b>			
<\$35,000 . . . . .	0	0	200
\$35,000 - \$55,000 . . . . .	0	150	600
>\$55,000 . . . . .	3	326	1,200
<b>Consumer unit composition</b>			
Husband/wife only . . . . .	0	125	652
Husband/wife/children . . . . .	0	100	600
Other families . . . . .	0	0	172
One person . . . . .	0	0	184
<b>Age of reference person</b>			
<45 . . . . .	0	20	260
45 - 55 . . . . .	0	100	600
>55 . . . . .	0	85	500
<b>Education of reference person</b>			
Less than high school . . . . .	0	0	180
High school or some college . . . . .	0	30	300
College degree or more . . . . .	0	200	850

<sup>3</sup>"Other families" includes single-parent families, husband and wife families with other relatives in the household, and relatives living in the same household.

<sup>4</sup>A reference person is identified by the respondent when asked "to start with the name of the person or one of the persons who owns or rents the home." The terms "head of household" or "householder" may be used to denote "reference person" in this paper.

**Figure 3. Percent contributing by family composition, 1988-89**



a high school education made contributions. Over half of all consumer units, regardless of age of reference person, contributed.

At the 75th percentile, contributions were reported by consumer units in each of the socioeconomic categories. Highest donations (\$1,200) were reported by consumer units with before-tax family incomes of over \$55,000. In other categories, contributions at the 75th percentile were highest for consumer units headed by reference persons with a college degree or more (\$850), husband and wife families without children (\$652), and reference persons 45-55 years old (\$600).

### Family Composition of Consumer Units Profiled

Less than one-half of the husband and wife families both with and without children donated to religion or charity (figure 3); less than one-third of other families or one-person consumer units donated to religion or charity. Less than 10 percent of husband and wife families both with and without children contributed to education or politics; less than 6 percent of other families or one-person consumer units donated to educational or political causes.


### Conclusion

Overall, 57 percent of consumer units interviewed contributed 2 percent of their before-tax family income to religion, charity, education, and politics in 1988-89. Clearly, religious or charitable causes were able to attract more contributors than were educational or political causes.

Findings indicate that one-way transfers<sup>5</sup> of money income are influenced by socioeconomic and demographic characteristics: Before-tax family income, family composition, and age and educational level of the reference person. As income and educational levels increased, so did the percentage of contributors and the dollar amount of median contribution.

<sup>5</sup>Philanthropic donations are considered to be voluntarily generated with a one-way flow of resources: from donors to donees (3).

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# Trends in Savings

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*As measured by the U.S. Department of Commerce, the U.S. savings rate trended downward between 1980 and 1990, from 6.0 to 4.5 percent. The distribution of financial assets of individuals, as measured in the flow of funds accounts by the Board of Governors of the Federal Reserve System, has changed over the last 40 years. Securities accounted for the largest share of assets over the period, although this share has been decreasing. Private pensions and government insurance and pensions together represented 6 percent of individuals' assets in 1950, but this share had risen to 25 percent by 1990. Trends in assets held in money market funds, stocks, mutual funds, and U.S. savings bonds are presented. Demographic and economic characteristics that may affect personal saving are discussed, including the life cycle theory and pressures on saving from various population groups, inflation, interest rates, and tax reform.*

From the perspective of the family, saving represents deferred consumption (7). Families who save must have enough income to meet their basic, current consumption needs. After this threshold is met, the decision to save and the level of savings are best predicted by income, wealth, and family characteristics such as social class, stage in family life cycle, and family size (5,8). Wealth may reflect past income patterns and a previous disposition towards saving.

## Definitions of Saving

There are two widely used measures of aggregate personal saving. The national income and product accounts (NIPA), compiled by the Bureau of Economic Analysis, U.S. Department of Commerce,

computes saving as the difference between personal outlays<sup>1</sup> and disposable personal income (after taxes and less Social Security contributions). Because consumer durables are regarded as current consumption and a flow of services is not imputed, some economists believe this measure underestimates actual household saving (9,11,14).

The second measurement of personal saving is used by the Federal Reserve for the flow of funds accounts. Personal saving is determined as the difference between net acquisition of assets (including housing) and net accumulation of liabilities for the household sector of the economy.

<sup>1</sup>Personal outlays include personal consumption expenditures and interest payments to the business sector other than mortgage interest. Excluded are expenses associated with new housing construction (considered residential investment), mortgage payments (included with cost of housing services for owner-occupied housing), and payments to government entities such as county hospitals and State universities (deducted from disposable personal income) (22).

Neither of these concepts of saving take into account changes in net worth of the household; that is, changes (capital gains or losses) in the value of owned assets. Therefore, the personal savings rate is a limited measure of household thriftiness because it excludes wealth accumulation in corporate and noncorporate equity and housing (16).

The savings rate is usually based on personal saving as defined in the NIPA and is the ratio of personal saving to disposable personal income. Between 1980 and 1990, the U.S. savings rate trended downward, from 6.0 to 4.5 percent (figure 1, p. 16). The most recent year the United States achieved a 6-percent level was 1984. In the 30 years between 1950 and 1980, the savings rate dropped below 6 percent in only 8 years; since 1980, a savings rate below 6 percent was recorded in 7 years.

The U.S. savings rate in 1985 was less than half the rate of Western Europeans and less than one-fourth that of the Japanese (table 1). Differences in national accounting may explain part of this variation. Based on current savings patterns, total wealth owned by Americans will increase by about 10 percent in the next decade, whereas total wealth owned by the Japanese will increase by between 20 and 25 percent (11).

**Table 1. Personal savings rates**

Years	United States	Japan	United Kingdom	Germany
<u>Percent</u>				
1970-74 .....	8.5	20.6	10.1	14.9
1975-79 .....	7.5	22.7	12.4	14.2
1980-84 .....	6.6	21.0	12.9	13.6
1985 .....	5.1	22.5	11.9	13.0

Source: Giordano, R.M., 1986, Myth and reality of Japanese influence on the U.S. Treasury Securities Market, *Financial Market Perspectives*, Goldman Sachs Economic Research, September-October Issue (7).



## Distribution of Financial Assets

The Federal Reserve publishes year-end financial holdings of individuals in the United States as part of its flow of funds accounts (4). Annual figures are for total financial assets invested and outstanding at year-end in various savings instruments.

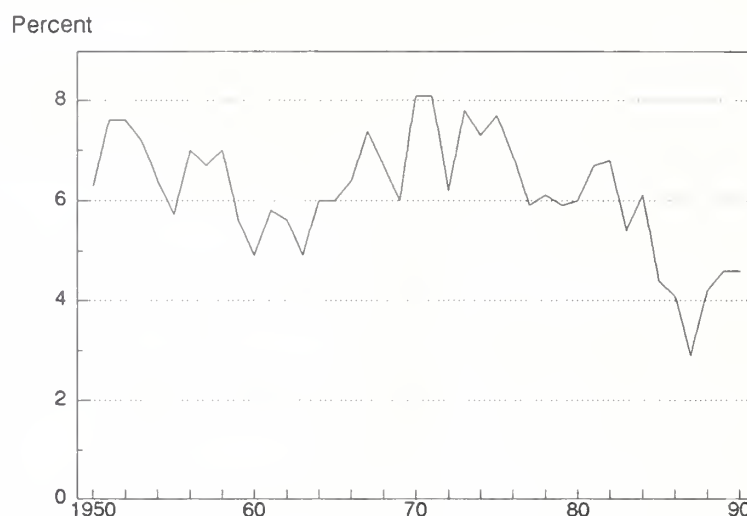
The distribution of financial assets of individuals in the United States has changed over the last 40 years (figure 2). Securities<sup>2</sup> accounted for the largest share of assets over the period, although this share has been decreasing. Other financial assets that have declined as a percentage of total assets include private life insurance (from 10 percent in 1950 to 3 percent in 1990) and demand deposits (from 16 percent in 1950 to 5 percent in 1990). In contrast, private pensions and government insurance and pensions, together representing only 6 percent of individuals' assets in 1950, have claimed an increasing share since then—reaching 25 percent in 1990.

## Specific Investment Instruments

Between 1977 and 1990, the CPI for all items more than doubled. Measured in **current dollars**, investments in savings bonds increased by 60 percent during this period, investments in stocks almost tripled, and investments in mutual funds increased 12 times. Financial assets placed in money market funds increased 125 times, from \$3 billion to \$424 billion (4).

<sup>2</sup>Securities includes U.S. savings bonds, U.S. treasury securities, U.S. Government agency securities, tax-exempt obligations, corporate and foreign bonds, open-market paper, mutual fund shares, and other corporate equities (stocks).

Figure 1. Personal saving as a percentage of disposable personal income



Source: U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business* (table 2.1).

**Money Market Funds.** Money market funds are mutual funds that invest in a variety of short-term money market instruments issued by institutions such as banks, corporations, government agencies, and the U.S. Treasury. Interest paid varies daily and may be withdrawn without penalty. Data on individuals' financial assets in money market funds have been available since 1974. By 1980, these funds represented 1.4 percent of individual financial assets and by 1990, 3.6 percent—more than the amount invested in private life insurance (3.1 percent). Dollars invested by individuals increased from \$3 billion in 1977 to \$196 billion in 1990 in constant 1977 dollars (figure 3, p. 18).

**Stocks.** Stocks represent ownership in a corporation. If the company does well and makes a profit, stockholders share in the earnings by receiving dividends. Also, if the company is successful, the value of the stock increases. This form of

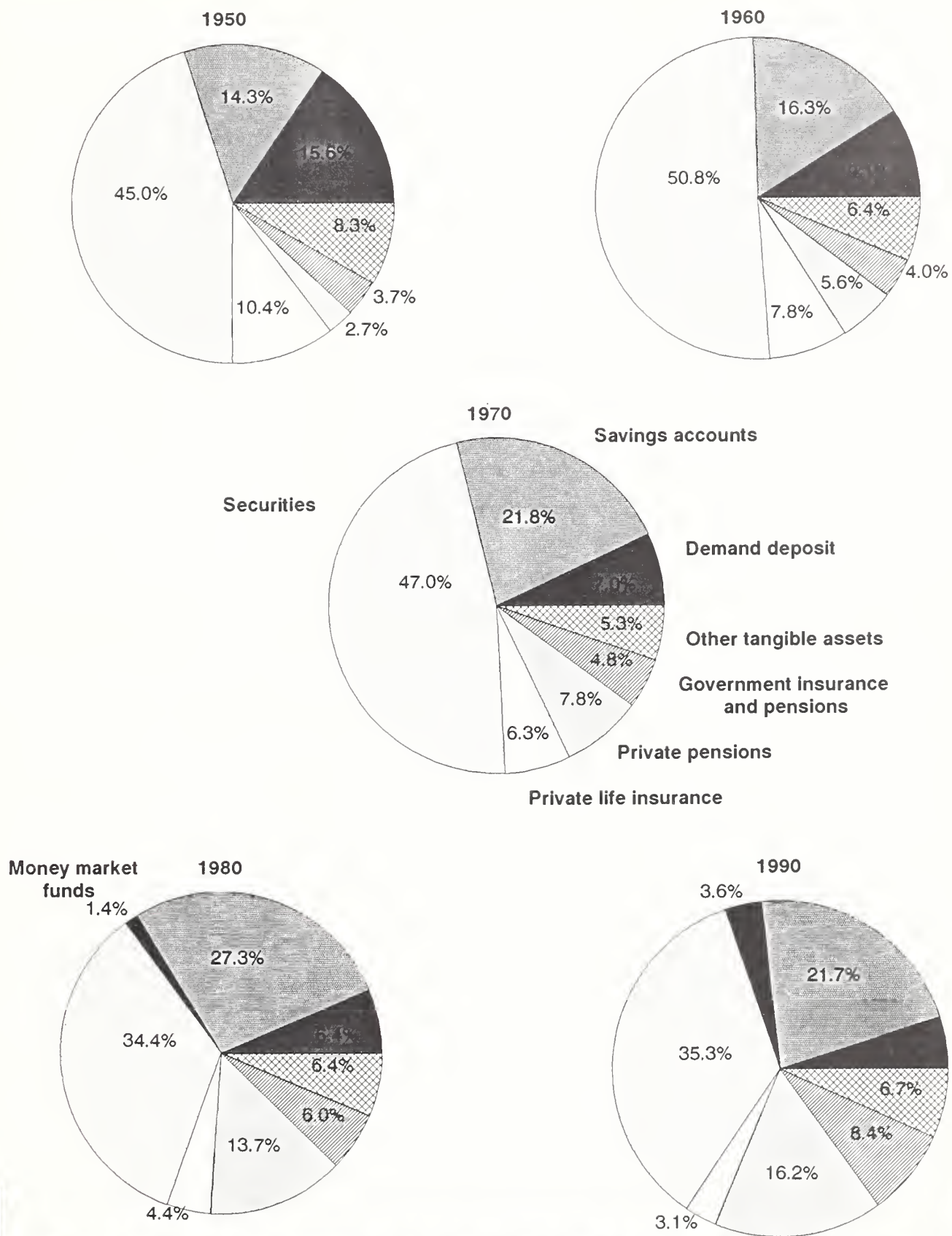
of earnings may be realized only if the stock is sold. Because it is difficult to predict the movement in the stock market, investing in stock is not without risk. According to the 1986 Survey of Consumer Finance (2), 48 percent of all publicly traded stock was held by the richest households—above the 99.5th percentile of wealth. Households at the 90th percentile and lower owned only 8 percent of stock (table 2, p. 19).

For the last 40 years, stocks have been a major share of financial assets of individuals. In 1950, 28 percent of total financial assets were in the form of stocks; between 1954 and 1972, this percentage varied between 33 percent and 42 percent. After 1972, the share of total financial assets held in stocks declined gradually to 21 percent by 1981 and 16 percent by 1990 (4).

Most financial advisers consider stocks, if the investment is long-term, to be a good hedge against inflation. Savings invested in stocks has trended upward in recent years.



Figure 2. Distribution of financial assets



Source: Calculated from Board of Governors of the Federal Reserve System, 1990, *Flow of Funds Accounts Financial Assets and Liabilities Year-End, 1950-89*.

Noticeable dips occurred in 1987 and 1990 when Wall Street registered substantial declines in stock values (figure 3). Not only was asset value depressed in those 2 years, it is likely that some individual investors diverted funds into other investment instruments.

**Mutual Funds.** Mutual funds are professionally managed investment portfolios in which individuals can buy shares. Managers of the funds use money from the sale of shares to purchase stocks, bonds, and other investments. Profits are returned to shareholders in the form of dividends; share appreciation is distributed as capital gains. Mutual funds offer diversification that spreads the risk of loss because a variety of securities are involved. Investment objectives vary: some may be income oriented; others may be growth oriented, or even speculative.

Investments in mutual funds increased rapidly between 1984 and

1986, and 1985 was the first year with over \$100 billion (1977 dollars) held in mutual funds (figure 3). Two years later in 1987, over \$200 billion (1977 dollars) of individuals' financial assets were invested in mutual funds. Between 1950 and 1980, the share of individuals' financial assets held in mutual funds varied from 1 to 2 percent; by 1990 this share had risen to 4 percent. Today, about 200 families of funds are listed daily in the newspaper, and \$226 billion (1977 dollars) is held in 3,200 different mutual funds.

**U.S. Savings Bonds.** Savings bond sales during January and February 1991 reached the highest levels since World War II. Not only were consumers acting out of patriotism during "Desert Storm," they were finding savings bonds to be more competitive because interest rates on certificates of deposit (CD's) were falling.

In 1977, savings bond holdings were \$77 billion. In constant 1977

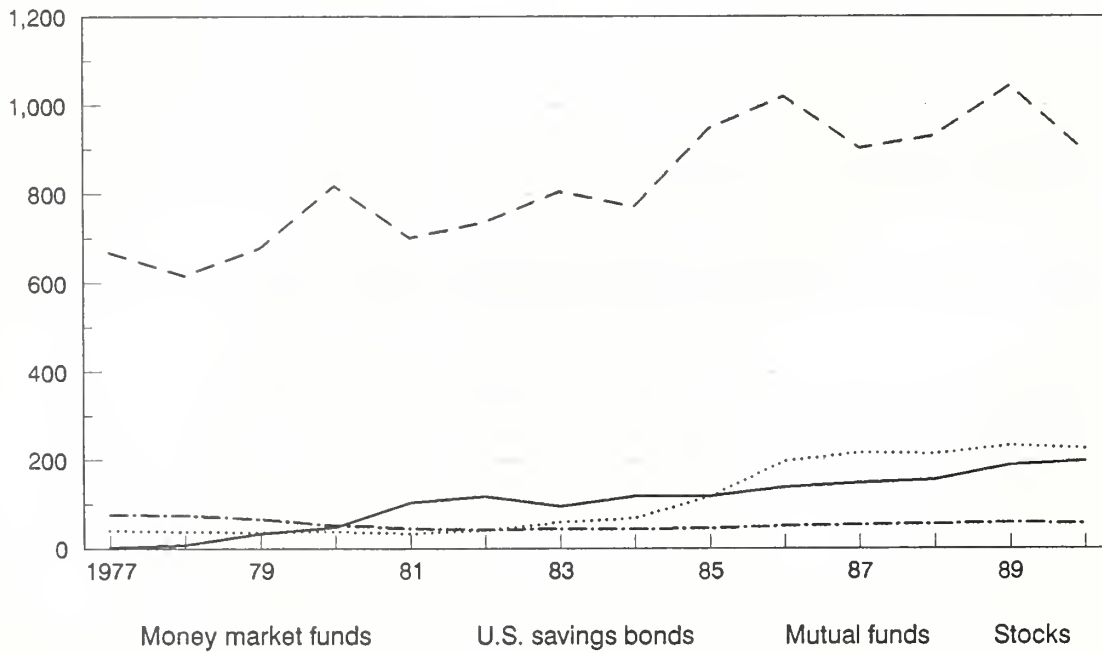
dollars, assets invested in savings bonds declined to \$43 billion in the mid-eighties. Since 1986 individual investments in savings bonds have trended upward, reaching \$57 billion (1977 dollars) in 1990 (figure 3).

Also, before 1986, redemptions (for matured and unmatured bonds) exceeded sales of U.S. savings bonds (23). As a percent of total amount outstanding, redemptions were 23 percent in 1980, 18 percent in 1981, and 13 percent in 1982. By 1987, redemptions were only 5 percent of total amounts outstanding.

During this time, interest rates for U.S. savings bonds held at least 5 years became more competitive, paying over 11 percent in 1982/83 and averaging over 8 percent for the 1982-91 period. The interest rate is set at 85 percent of the average yield on 5-year Treasury securities; interest is compounded semiannually and guaranteed to pay no less than 6 percent.

**Figure 3. Year-end assets in four types of investments for U.S. individuals, 1977-90**

\$ billions, constant 1977 dollars



Source: Calculated from Board of Governors of the Federal Reserve System, 1990, *Flow of Funds Accounts Financial Assets and Liabilities Year-End, 1950-89*.

**Table 2. Concentration of wealth, 1986**

Gross assets	Percent of total assets held by all households <sup>1</sup>	Percent of asset held by households in percentile range for wealth			
		0 - 90	90 - 99	99.0 - 99.5	99.5 - 100
<b>Total assets</b> . . . . .	<b>100.0</b>	<b>40.3</b>	<b>31.1</b>	<b>7.5</b>	<b>21.1</b>
Principal residence . . . . .	31.9	68.3	25.3	2.6	3.8
Other real estate (gross) . . . . .	16.0	26.7	39.0	17.5	16.8
Publicly traded stock . . . . .	9.2	8.3	29.9	13.4	48.4
Bonds (including savings) . . . . .	3.1	14.5	39.5	8.1	37.9
Checking and savings accounts . . . . .	3.9	56.1	31.9	6.4	5.6
IRA's and Keogh's . . . . .	3.0	38.2	35.5	6.1	20.2
CD's and money market accounts . . . . .	5.2	38.7	41.7	6.3	13.3
Small business assets (net) . . . . .	15.2	10.8	34.2	7.6	47.4
Automobiles . . . . .	4.1	81.5	15.4	1.0	2.1
Employer savings accounts . . . . .	2.4	38.4	31.9	10.6	19.1
Miscellaneous <sup>2</sup> . . . . .	6.0	28.7	28.9	3.7	38.7

<sup>1</sup>Household heads at least 25 years old.

<sup>2</sup>Includes estimated cash value of whole life insurance, trusts, or managed investment accounts, plus the outstanding principal on all notes, mortgages, or land contracts owed to the household.

Source: Data are from the 1986 Survey of Consumer Finance as reported in Avery, R.B., and Kennickell, A.B., *Measurement of Household Saving Obtained from First-Differencing Wealth Estimates*, Paper presented at the Twenty-first General Conference of the International Association for Research in Income and Wealth, Lahnstein, Germany.

## Demographic Characteristics That Affect Saving

Hefferan (8) has defined saving as "a rational act in which households express their time preference for expenditures so as to maximize the use of income over their life cycle." Most economists agree that the life cycle theory helps to explain savings behavior (1,13,14,22). This theory suggests that families save the most during their middle years (ages 45 to 64), with lower levels of saving during the formative and the retirement periods.

Whether the aging of the baby boom generation will affect the U.S. savings rate is a subject of much speculation among economists. Born between 1946 and 1964, the baby boomers are entering their prime saving years and maturing out of the family formation period when a large portion of income is invested in consumer durables.

Montgomery (14) found durables were near perfect substitutes for other forms of household saving. Because the savings rate excludes durables, a rise in durable investment leads to a reduction in saving (14). When there is a large cohort of young people, the savings rate is depressed; similarly, when there is a large cohort of prospective savers, the effect on savings rate should be positive. But, large cohorts also have a depressing effect on income. If the income attained by baby boomers is low relative to that of the current group of persons age 45 to 64, their rate of saving would also likely be low (10).

Meanwhile, the numbers of elderly are increasing and the proportion of the population that is elderly is growing larger (21). Although there is evidence that those over 65 years old save less, supporting the life cycle theory of savings behavior, many older people continue saving

into retirement (10,18). They are less concerned with saving for bequests (11,18,19) than for long-term health care. A large fraction of wealth is held by those age 65 and over (12,15). In 1985, over half of interest income and one-third of capital gains were received by taxpayers age 65 and over.

In addition to age, there are other demographic characteristics that affect the savings rate. The increased rate of divorce, the rise in single-parent households, and an increasing rate of independent living among older people have contributed to a faster rise in the number of households than in the adult population. Diseconomies of scale would lead to increased market consumption and lower levels of saving (10).



## Economic Factors That May Affect Personal Saving

**Inflation.** When inflation is high, incentive to substitute tangible assets for financial assets increases, thereby depressing the savings rate. Unanticipated increases in the rate of inflation (for example, oil shocks), however, may contribute to a higher level of savings (14). Then, after consumers readjust their expectations about the rate of inflation to the new higher level, they also readjust their savings—downward.

**Interest rates.** As interest rates increase, present consumption becomes more expensive than future consumption, so the tendency is for people to save more and defer expenditures. With a specific savings goal or target, higher rates allow the goal to be reached with less saving (7,15). Higher interest rates produce higher income that is more likely to be saved at younger ages, but consumed at older ages (15). Thus, the age distribution of the population is important when estimating the impact of interest rates on saving.

**Tax reform.** The Tax Reform Act of 1986 contained several major provisions that affected personal saving:

- Personal interest deductions were phased out except for home mortgage interest.

Phasing out personal interest deductions could have discouraged borrowing, thereby stimulating saving. Instead, some taxpayers who were homeowners borrowed against their home equity. The ratio of home mortgages to housing value reached 48 percent in 1988, up from 40 percent in 1984 (17).

- Preferential treatment of capital gains was eliminated.

Taxpayers rushed to realize long-term capital gains in 1986 and then invested in interest-bearing assets (17).

- Deductibility of individual retirement account (IRA) contributions was sharply reduced for higher income taxpayers. IRA contributions for families earning over \$40,000 and for single persons earning over \$25,000 were phased out.

IRA contributions fell by 62 percent between 1986 and 1987. Between 1982, when IRA's were first generally available, and 1986, when they were curtailed, the personal savings rate declined from 7 to 4 percent (17) (figure 1).

- The marginal tax rate was decreased.

Concern about the low savings rate was one motivating factor for the reduction in marginal tax rates (7). Since the biggest tax breaks went to low-income households (with low savings rates) and high-income households (with high savings rates), the overall effect on saving was not clear. Even in retrospect, it is difficult to predict the effects of a personal tax rate cut on savings. Garner (7) concluded lower tax rates probably do not boost personal saving.

Some economists suggest some kind of consumption tax would be more likely than a cut in the marginal income tax rate to encourage personal saving (7,11).

**IRA's.** In 1982, IRA's became available to all employees. Any employee could contribute \$2,000 per year to an IRA account, and a nonworking spouse of an employee could contribute \$250. Before 1982, only people without private pension plans could contribute to IRA's, and the limit was lower. Total contributions to these tax-deferred savings plans were \$5 billion in 1981, \$28 billion in 1982, and \$40 billion in 1986 (20).


A study using Consumer Expenditure Survey data from 1980 through 1st quarter 1985 compared contributions to IRA accounts and dollar changes in other asset balances (20). Findings showed almost no substitution of IRA's for other saving. Most IRA saving was net new saving. A comparison of IRA contributors and noncontributors showed a higher percentage of contributing households increased their total financial assets between 1980 and 1985, indicating those who save in one form are most likely to save in other forms as well.

Individuals think of IRA contributions as saving for retirement and distinct from other saving. Further research is needed to determine what effect the change in pension vesting rules will have on the personal savings rate. Because the period for vesting was shortened to 5 years, more employees will be vested and have increased pension wealth (7). To what extent will this influence saving for retirement?

**Social Security.** In 1974, Martin Feldstein published estimates that Social Security had reduced personal saving by 50 percent. Over the next decade, several economists published results from their own empirical studies both supporting and contradicting this conclusion. A more recent study (3) found that expected Social Security benefits depress personal saving roughly dollar for dollar for single individuals, but that there was no relationship between expected benefits and accumulated wealth for couples. Other studies (6,13) concluded that U.S. time-series data do not isolate the effect of Social Security on saving or provide statistically significant support that Social Security has depressed private saving in the United States.



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## Characteristics of People With and Without Health Care Coverage

In 1989, an estimated 33.9 million people (13.9 percent of the civilian noninstitutionalized population<sup>1</sup> of the United States) were without health care coverage. The National Health Interview Survey (NHIS), conducted by the Bureau of the Census, reports a person's coverage status at the time of the interview; status for any time before the interview is not considered.

Because of Medicare, most people without any form of health care coverage are under 65 years of age. Only 1.2 percent of people 65 years and older (0.3 million persons) lack health care coverage (see table).

People covered by private health insurance, Medicare, public assistance (most often Medicaid), and military or Veterans' Administration health benefits were classified as having health care coverage.

<sup>1</sup>All percentages in this study were reported for the U.S. civilian noninstitutionalized population.

### Private Health Insurance

About 76.1 percent of the population (an estimated 185.3 million people) were covered by private health insurance in 1989. For those under 65 years old, private plans were the primary form of coverage; for those 65 years and older, most plans were purchased to supplement Medicare coverage. The percentage of persons covered by private health insurance was directly related to family income and ranged from 30 percent for those in families with income under \$5,000 to 95 percent for those with income of \$50,000 and over. Characteristics of people more likely to have private health insurance included those with more than 12 years of education (88 percent), living in an MSA outside a central city (82 percent), or living in the Northeast or Midwest (81 and 82 percent).

### Medicare

About 12.6 percent of the population (an estimated 30.7 million people) were covered by Medicare in 1989. Among people 65 years and older, 94 percent were covered by Medicare. People of "other races" were least likely among the elders to be covered (78 percent).

### Public Assistance

In 1989, 6.2 percent of the population (an estimated 15.1 million people) were covered by public assistance health care programs. A higher percentage of people under 18 years old (11.1 percent) than adults had this form of coverage.

### Military – Veterans' Administration

An estimated 6.3 million people (2.6 percent of the population) were covered by military and/or Veterans' Administration health care programs in 1989. People over 65 years old were slightly more likely to be covered under this type of program (4 percent) than younger individuals. Also, men—especially older men (9 percent)—were more likely to be covered than women, and a higher proportion of people living in the South and West (4 and 3 percent) were covered in this program.

### Trends

The percentage of people with no health care coverage increased by 7 percent from 1984 to 1989. For people under age 65, the increase was 8 percent. The increase in non-coverage during this period was greater for those above the poverty level (11 percent) than it was for those below the poverty level (5 percent).

The proportion of people covered by private health insurance has declined from 79.9 percent in 1974 to 75.9 percent in 1989.

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Source: Ries, P., 1991, *Characteristics of Persons With and Without Health Care Coverage: United States, 1989*, Advance Data, Number 201, U.S. Department of Health and Human Services, Public Health Service, National Center for Health Statistics.

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**Percentage of people without health care coverage, by age and sociodemographic characteristics:  
United States, 1989**

Sociodemographic characteristics	All ages	Under 65 years					65 years and over
		Total	Under 18 years	18 - 24 years	25 - 44 years	45 - 64 years	
					Percent <sup>1</sup>		
All persons not covered <sup>2</sup> . . . . .	13.9	15.7	14.9	27.4	15.5	10.5	1.2
Sex							
Male . . . . .	15.1	16.7	15.1	31.3	17.6	9.6	1.3
Female . . . . .	12.7	14.6	14.7	23.7	13.6	11.2	1.2
Race							
White . . . . .	12.8	14.5	14.0	26.3	14.4	9.4	1.0
Black . . . . .	20.2	21.9	18.9	34.3	22.5	17.5	2.5
Other . . . . .	19.7	20.4	18.9	27.8	20.7	17.5	8.4 <sup>3</sup>
Family income							
Less than \$5,000 . . . . .	27.1	31.3	25.5	27.3	42.4	35.5	1.5 <sup>3</sup>
\$5,000 - \$9,999 . . . . .	27.7	36.9	31.6	43.5	43.5	32.2	1.6
\$10,000 - \$19,999 . . . . .	24.3	30.1	30.2	37.5	32.0	21.3	1.1
\$20,000 - \$34,999 . . . . .	10.6	11.6	10.9	22.1	11.8	6.8	1.0
\$35,000 - \$49,999 . . . . .	5.8	6.0	4.0	18.4	5.8	3.9	0.8 <sup>3</sup>
\$50,000 or more . . . . .	3.6	3.7	2.3	12.9	3.7	1.9	1.6 <sup>3</sup>
Poverty status							
In poverty . . . . .	32.5	36.0	32.5	35.9	42.2	35.9	2.3
Not in poverty . . . . .	10.3	11.5	9.6	23.5	11.7	7.6	1.1
Employment status <sup>4</sup>							
Employed . . . . .	13.9	14.3	NA	26.6	13.6	9.0	1.5
Unemployed . . . . .	38.3	39.2	NA	44.5	40.8	26.5	NA
Not in labor force . . . . .	10.8	18.5	NA	26.0	21.2	12.8	1.2
Education <sup>4</sup>							
Less than 12 years . . . . .	20.8	30.1	NA	42.1	35.5	19.9	1.5
12 years . . . . .	14.4	16.6	NA	29.8	16.8	8.5	0.7
More than 12 years . . . . .	8.4	9.2	NA	16.0	9.0	5.8	1.3
Region							
Northeast . . . . .	9.6	11.0	9.9	22.0	10.9	6.6	1.7
Midwest . . . . .	9.6	10.8	8.8	22.3	10.6	7.6	0.8
South . . . . .	17.5	19.7	20.5	30.9	19.2	13.4	1.1
West . . . . .	17.1	18.9	16.7	32.7	19.7	13.1	1.6
Place of residence							
MSA . . . . .	13.7	15.3	14.4	27.4	15.2	9.8	1.3
Central city . . . . .	17.2	19.4	18.2	30.0	20.1	12.9	1.6
Not central city . . . . .	11.4	12.7	12.1	25.4	12.1	8.0	1.1
Not MSA . . . . .	14.7	17.1	16.5	27.6	17.0	12.6	1.1

<sup>1</sup>Percent calculated excluding the 9.7 million persons for whom coverage status was not determined.

<sup>2</sup>Includes persons with unknown sociodemographic characteristics.

<sup>3</sup>Standard error exceeds 30 percent.

<sup>4</sup>Excludes persons under 18 years of age.

NA = Not applicable; not available.

Note: MSA is metropolitan statistical area.

Source: Ries, P., 1991, *Characteristics of Persons With and Without Health Care Coverage: United States, 1989*, Advance Data, Number 201, U.S. Department of Health and Human Services, Public Health Service, National Center for Health Statistics.



# Household Wealth and Asset Ownership: 1988

Economic well-being depends on both income and asset accumulation (wealth). Whereas income measures the flow of resources to a household, wealth measures the level of resources for that household at any point in time.

This report presents 1988 data on household wealth in the United States. Data are from the Survey of Income and Program Participation (SIPP), collected in January through May of 1988. The report compares 1988 data with 1984 data first published in Series P-70, No. 7, *Household Wealth and Asset Ownership: 1984*. The 1984 data are presented in constant 1988 dollars, based on the 1984 to 1988 change in the Consumer Price Index (CPI-U).

## Household Net Worth

The median household net worth in 1988 was \$35,752, not statistically different from the 1984 median net worth (\$37,012 in 1988 dollars). Net worth is defined as the value of assets covered in the survey less any debts either unsecured or secured by assets.

Assets covered include interest-earning assets (regular savings accounts, money market deposit accounts, certificates of deposit, interest-earning checking accounts, money market funds, corporate or municipal bonds, U.S. Government securities, and other interest-earning assets), stocks and mutual fund shares, real estate (own home, rental property, vacation homes, and landholdings), own business or profession, mortgages held by sellers, and motor vehicles.

Liabilities covered include debts secured by any asset, credit card or store bills, bank loans, and other unsecured debts. The survey did not cover equities in pension plans, cash surrender value of life insurance policies, or the value of jewelry and home furnishings.

Home equity accounted for the largest share of net worth in 1988 (see figure), as it did in 1984. Home ownership was reported by 64 percent of all households in 1988 and accounted for 43 percent of total net worth, with a median equity of \$43,100. The figures in 1984 were 64 percent home ownership, 41 percent of total net worth, and median equity of \$46,100 in 1988 dollars.

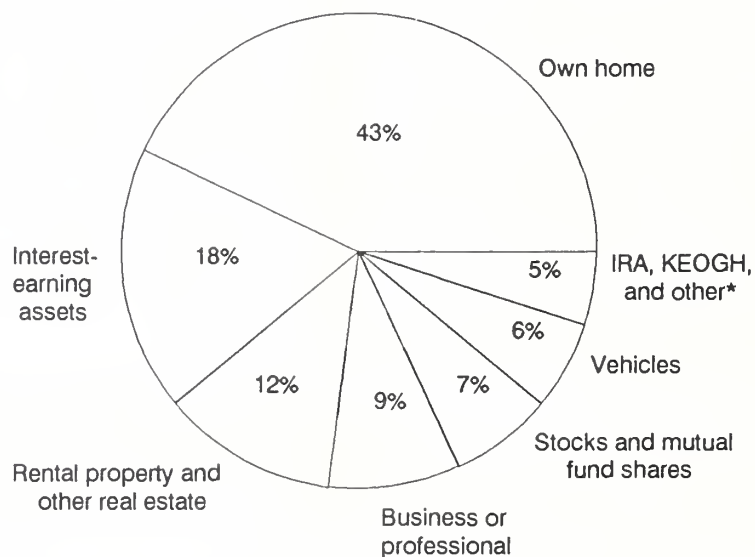
The second most important asset type in both 1988 and 1984 was interest-earning assets. Deposits at financial institutions accounted for 14 percent of net worth, and other interest-earning assets made up another 3 or 4 percent of net worth. In both years, over 70 percent of households had interest-earning assets at financial institutions and the median deposit was about \$3,500. Ownership of other interest-earning assets was reported by 9 percent of households and the median amounts held were about \$11,000 in both years.

Stocks and mutual fund shares were owned by 22 percent of households in 1988, with median holdings of \$4,500 and accounting for 7 percent of net worth. In 1984 these funds were owned by 20 percent of households, with median holdings of \$4,400 and accounting for 7 percent of net worth.

In 1988, 34 percent of households held interest-earning checking accounts and 15 percent held money market deposit accounts, even though these assets have been widely available only since 1982. Although there was no increase from 1984 in the percentage of households holding money market accounts, there was a 9-percent increase in the ownership rate of interest-earning checking accounts.

Changes in the tax laws made IRA and KEOGH accounts more widely available. In 1984, these retirement assets accounted for 2 percent of net worth and were held by 20 percent of households. By 1988, these assets increased to 4 percent of net worth and were held by 24 percent of households.

Distribution of net worth by asset types: 1988



\*Includes: Mortgages held from sale of real estate, amount due from sale of business, unit trusts, and other financial investments; checking accounts; U.S. savings bonds; less unsecured liabilities.

## Net Worth by Income

Income is reported by income quintile. Median net worth showed a systematic relationship to income. Median net worth in 1988 ranged from \$4,300 for households in the lowest income quintile to \$111,800 for households in the highest income quintile. Wealth is concentrated in the top of the income distribution. In 1988, the bottom 20 percent of the income distribution owned 7 percent of total net worth, and the top 20 percent owned 44 percent. The distribution was similar in 1984.

In 1988, the home ownership rate ranged from 42 percent for the lowest income quintile to 85 percent for the highest quintile, and median equity in own home varied from \$33,400 to \$61,200 for these two groups. These percentages and median equity values were not significantly different from the 1984 figures. Other assets with large differences in ownership rates between the lowest and highest quintiles in 1988 were stocks and mutual fund shares (6 to 44 percent), IRA or KEOGH accounts (5 to 52 percent), and business equity (6 to 21 percent).

The composition of net worth differed by income group. Home equity decreased in relative importance as income increased, accounting for 59 percent of net worth for the lowest quintile of income, but only 37 percent for the highest quintile. Equity in vehicles was also less important in the higher income quintiles. Most other assets increased in relative importance with increasing income. Stocks and mutual fund shares accounted for 3 percent of net worth for the lowest income group and 9 percent for the highest income group.

## Net Worth by Age

Age is correlated with net worth because increasing age offers an increasing opportunity to accumulate wealth. In 1988, median net worth ranged from \$6,100 for the youngest households (less than 35 years) to \$83,500 for households in the 65-to-69 age group. Median net worth for those 75 years and older was \$61,500.

The distribution of net worth by age was different from the distribution of income by age. In 1988, the median monthly household income of the under-35 age group (\$2,000) was about twice that of the 75-and-over age group (\$980), but the older group had a median net worth about 10 times that of the younger group. When home equity was excluded, the oldest group had a net worth about six times that of the youngest group.

Equity in vehicles declined in importance with increasing age, from 16 percent of net worth for the youngest group to 3 percent for the 65-and-older group. Other asset types increased between the youngest and oldest groups as a share of net worth. Interest-earning assets at financial institutions increased in importance with increasing age from 11 percent of net worth for the youngest group to 22 percent for the 65-and-older group. Stocks and mutual fund shares as a percentage of net worth also increased—from 4 percent for the youngest group to 8 percent for the oldest group.

## Net Worth by Race and Hispanic Origin

Large differences in wealth holdings occurred between White and Black householders. In 1988, White householders had a median net worth of \$43,300, compared with \$4,200 for Blacks. Households headed by a person of Hispanic origin had median holdings of \$5,500. These estimates were not significantly different from the comparable 1984 estimates. In general,

Black householders were younger than White householders. In 1988, 54 percent of Black householders were less than 45 years old, compared with 49 percent of White householders. A larger percentage of White householders were 65 years and older, 22 percent compared with 17 percent of Black householders.

Composition of wealth also differed by race of the householder. In both 1988 and 1984, Black householders held a significantly greater percentage of their net worth in tangible assets such as housing (68 percent vs. 42 percent for White householders in 1988 and 65 percent vs. 40 percent in 1984) and motor vehicles (11 percent for Blacks vs. 6 percent for Whites in both years). Blacks also held a lower percentage in financial assets such as stocks and mutual fund shares (1 percent vs. 7 percent for Whites in both years) and deposits at financial institutions (8 percent vs. 14 percent for Whites in 1988 and 7 percent vs. 15 percent in 1984).

## Net Worth by Type of Household

Married-couple households had larger median net worth holdings in 1988 (\$57,100) than male-maintained households (\$13,100) or female-maintained households (\$13,600). Female householders under age 35 had the lowest net worth holdings (\$1,400 in 1988).

Only 35 percent of Black households were married-couple households, compared with about 60 percent of White households. Household type partially explains the large differences in median net worth between Black and White households.

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Source: Eargle, J., 1990, *Household Wealth and Asset Ownership: 1988*, Current Population Reports, Household Economic Studies, Series P-70, No. 22, U.S. Department of Commerce, Bureau of the Census.

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# Who Can Afford To Buy a House?

Information collected by the Bureau of the Census for the Survey of Income and Program Participation (SIPP) during the spring of 1988 was used to show whether families and individuals could afford to purchase the median-priced home in their region. Data on income, assets, and debts were used to determine whether the family or individual could qualify for a 30-year mortgage using conventional or FHA mortgage guidelines.

The FHA mortgage insurance program allows mortgage applicants to spend a higher percentage of their income on housing and debt payments, compared with conventional mortgage qualification guidelines, and to finance part of the closing costs and points and the entire mortgage insurance premium. But the limits set on the total mortgage amount are somewhat lower than the limits under conventional mortgage guidelines. In general, use of FHA-insured mortgage guidelines results in a

lower percentage of families and unrelated individuals that could not afford the median-priced house.

Findings reported in this summary are limited to those that determined whether or not families (or unrelated individuals) qualified for **conventional, fixed-rate mortgages**.

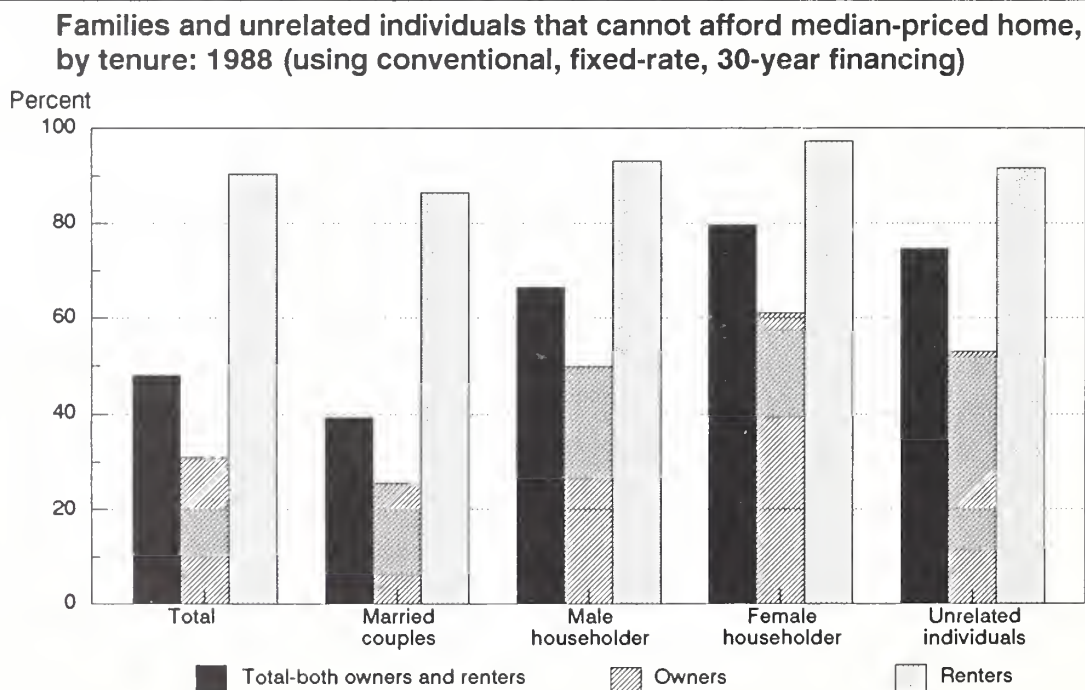
In the spring of 1988, 57 percent of all families and unrelated individuals<sup>1</sup> in the United States could not afford to buy the median-priced home in the region where they lived (see figure). Those who could not qualify were analyzed by family status, tenure, race and Hispanic origin, age of householder, and qualifying income.

Among married-couple families without children under 18 years old, only 31 percent could not qualify for a conventional mortgage. In contrast, most single-parent households with children under 18 years old (87 percent of female householders and 75 percent of male householders) could not afford a median-priced home.

<sup>1</sup>Unrelated individuals are persons 15 years old or older who are not living with any relatives. They may constitute a one-person household or part of a household including nonrelatives.

Between 30 and 40 percent of current owners could not afford to buy the median-priced home in their region (see table). By definition, 50 percent of all owners own homes priced below the median. In addition, the financial situation of owners may have changed since they purchased their current home. About 31 percent of all current-owner *families* and 53 percent of all current-owner *unrelated individuals* would not qualify for a conventional mortgage on the median-priced home. Between 89 and 93 percent of all current *renters* could not afford to buy the median-priced home in their region.

Twice as many White (57 percent) and non-Hispanic families (54 percent) could afford to buy the median-priced home as Black and Hispanic families (23 and 26 percent). Age of the householder was strongly correlated with affordability status for families and unrelated individuals. Among families, 6 percent of householders under age 25, compared with 73 percent of householders ages 55 to 64, were able to afford the median-priced home in their region.





## Why Families and Individuals Don't Qualify

This analysis considered three factors that may keep families and individuals from being able to afford a home: (1) not having enough cash for the down payment and closing costs; (2) having too much debt to qualify for a mortgage; and (3) not having sufficient income to afford the monthly mortgage payments.

Household income has a positive relationship with the ability to purchase a home. However, individuals and families with high qualifying income levels may not be able to afford a median-priced home because they do not have enough cash, or assets that may be converted to cash, for the down payment and closing costs. Other families and individuals with lower income levels but larger amounts of cash may qualify.

Surprisingly, 21 percent of current-owner families having no qualifying income would have been able to purchase the median-priced home where they lived. This indicates they had access to assets sufficient to buy without a mortgage. Of the current-renter families earning \$60,000 or more, only 57 percent could afford to purchase the median-priced home. Therefore, it is often lack of cash, not income, that keeps many renters from becoming homeowners.

Forty-four percent of current-owner families were ineligible because they did not have enough cash for the down payment and closing costs, compared with 6 percent of current renters; 10 percent of current owners had too high a debt level, compared with 6 percent of renters; and 8 percent of owners did not have sufficient income for the monthly mortgage payments versus 9 percent of renters. Most renters (80 percent) and 38 percent of owners did not qualify for a mortgage for a combination of reasons.

## Percentage of families and unrelated individuals not qualifying for median-priced home, by region, 1988

Median price of home by region (\$ thousands)		Total	Current owners	Current renters
Northeast	\$100 .....	59	36	93
Midwest	60 .....	51	30	89
South	60 .....	56	38	90
West	95 .....	63	40	93

## The Maximum-Priced Home

The maximum-priced home that can be afforded is greatly influenced by the amount of cash available. (Financial assistance with the down payment or closing costs that may be provided by others was not considered in this study.) Nine percent of married-couple families and 19 percent of unrelated individuals could not afford a home at any price in 1988. The median maximum-priced home that *owner* married-couple families could afford was \$126,400; for *owner* unrelated individuals, it was \$66,500. The median maximum-priced home that could be afforded by *renters* (all family types and unrelated individuals) was under \$20,000.

Among married-couple families, 22 percent of White, 22 percent of non-Hispanic, 43 percent of Black, and 47 percent of Hispanic could either not afford any home or only one priced below \$20,000. The median maximum-priced home afforded by White married-couple families was \$105,600, compared with \$40,300 for Blacks, \$31,000 for Hispanic families, and \$103,400 for non-Hispanic families.

## Effect of Changes in Interest Rates

The level of interest rates generally has a significant effect on the level of affordability. For family owners, if interest rates on conventional mortgages rose 2 percentage points, those who could not afford the median-priced home would increase from 31 percent to 33 percent—or by 1 million families.

Changes in interest rates had less effect on renters. For families and unrelated individual renters, the percentage who could not afford a home stayed at about 90 percent with both a 2-percentage-point rise in interest rates and a 2-point decline in rates.

## Modestly Priced<sup>2</sup> Home

It is not necessary to purchase the median-priced home to become a homeowner. By definition, one-half of all homes in an area are priced below the median. It is reasonable to assume that buyers, particularly those moving into home ownership for the first time, seek homes priced below the median. In 1988, 48 percent of all families and unrelated individuals could not afford to buy a modestly priced home in the region where they lived, compared with 57 percent who could not afford the median-priced home—a difference of 9.1 million families and unrelated individuals.

Using FHA financing, an additional 2.9 million families and unrelated individuals could afford a modestly priced home and an additional 2 million families and unrelated individuals could afford a median-priced home.

<sup>2</sup>A modestly priced home is one priced such that 25 percent of all homes in a region are below this value and 75 percent are above.

Source: Fronezek, P.J. and Savage, H.A., 1991, *Who Can Afford to Buy a House?* Current Housing Report, Series H121/91-1, U.S. Department of Commerce, Bureau of the Census.

## Payment of Household Debts

Between 1980 and 1990, the indebtedness of U.S. households increased at a rate of 10 percent per year — faster than the average growth in after-tax income over the same period. The sum of home mortgages and consumer debt outstanding rose from \$1.3 trillion at the end of 1980 to just under \$3.4 trillion at year-end 1990. This rise in debt during the 1980's has raised concerns about the ability of individuals to meet their debt obligations. Also, higher debt burdens may act as a drag on consumption because scheduled debt payments represent a competing claim on current income.

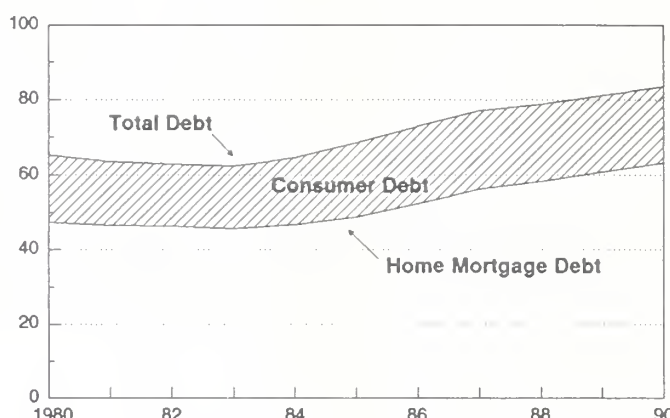
There are two major categories of household debt: (1) home mortgage debt, which amounted to about \$2.6 trillion at the end of 1990, and (2) consumer debt, which totaled about \$800 billion at year-end. Consumer debt may be subdivided into installment (90 percent of all consumer debt) and noninstallment debt.

To provide some indication of the burden that household debts place on the resources available for repaying them, a debt-to-income ratio can be calculated (see figure). The most frequently cited debt burden measure excludes mortgage and noninstallment debts, basing the ratio only on consumer installment credit. This measure is limited because it does not take into account substitutions between consumer installment debt and other types of borrowing, such as home equity lines of credit. The recent popularity of home equity lines of credit may have curtailed the growth of consumer installment debt.

### Survey of Consumer Attitudes

To obtain information on consumer debts and recent household experience with repayment problems, the Federal Reserve Board developed questions that were included in the

Debt as a percentage of disposable personal income



September 1990, November 1990, and January 1991 Survey of Consumer Attitudes conducted by the Survey Research Center of the University of Michigan. The sample contained 1,534 families, 1,331 of whom were indebted families.

### Payment Behavior

Overall, 85 percent of all households had an outstanding debt obligation or access to a line of credit under a credit card plan when interviewed. Among all households, only 3 percent had home mortgages exclusively, 45 percent had only consumer credit, and 38 percent had both outstanding mortgage and consumer debt. Eighty-six percent of the indebted households reported that they met or exceeded all of their scheduled debt payment obligations; of these households, about half made payments that were larger or more frequent than scheduled on at least one of their outstanding obligations.

About 14 percent of indebted households reported being late on at least one of their scheduled debt payments. Vehicle loans, other types of non-credit-card installment debt, and credit card debt were most frequently reported as being late.

### Characteristics of Consumers with Payment Problems

The credit-screening process eliminates the riskiest applicants; for those who receive credit, the data can show which factors are associated with missed payments. Those more likely to experience payment problems are renters, divorced or separated persons, and those with highest debt-service burdens. Debtors in the lowest two income quintiles are about twice as likely to be late or miss a scheduled payment as are households in the highest income group. Households headed by people under 35 years of age are nearly four times as likely to report payment problems as are those headed by an individual at least 55 years of age; younger people, of course, tend to have lower incomes.

### Late Payments

The survey found that 9 percent of all indebted households fell behind more than 30 days on one or more of their debt obligations in the year preceding the survey. For these households, the mean and median number of payments more than 30 days past due were 2.9 and 2.0, respectively. Roughly 3 percent of all debtors fell more than 3 payments behind within a 12-month period.



The main reasons for late payments were that the consumer became overextended by taking on too much debt or had experienced an unforeseen change in his or her employment or health status. Of the families experiencing payment problems, 55 percent indicated that they became overextended; 6 percent experienced medical-related problems; and 24 percent either lost their jobs, were not working, or had suffered a cutback in the number of hours worked. About 22 percent of late payers reported that they called their creditors about the problem.

Nearly 40 percent of those facing debt payment problems reported that they caught up on their delinquencies the next month or paid "when they were able." Other households delinquent in their payments cut back on other types of spending, took second jobs, worked longer hours, sold various items to raise funds, or borrowed or received gifts from relatives or friends.

### Implications of Survey Findings

The household survey reports delinquency statistics for the 12 months preceding the survey date, whereas aggregate statistics from industry sources reflect the proportion of loans delinquent at any one point in time. Even so, some insights may be gained by comparing delinquency rates from the two sources. For example, if the two rates are similar, that suggests that industry-reported delinquencies reflect a relatively small set of chronically delinquent debtors. If the household rate is higher, it would indicate late payment behavior is more widely dispersed among the debtor population.

In summary, the household survey data suggest that a substantial proportion of the loans that are past due at a point in time do not reflect serious payment problems, but ones that will be rectified within a reasonably short time period.

## What's It Worth? Educational Background and Economic Status

Data from the Survey of Income and Program Participation (SIPP) were used to analyze the degree attainment, educational background, and economic status of the U.S. adult population (age 18 and over). Data were collected in the 4-month period from June through September 1987.

### Degree Attainment

In 1987, 54 percent of the adult population had earned a high school diploma as its highest degree. Of the rest, 22 percent had not completed high school and 23 percent had obtained a degree of some type beyond high school. These degrees include: vocational, associate, bachelor's, master's, professional, and doctorate.

Analysis of the distribution of degree attainment was done for some demographic subcategories of the population. Degrees beyond high school were held by 25 percent of men, compared with 22 percent of women. Also notable, degrees beyond high school were held by 24 percent of Whites, compared with 15 percent of Blacks. A much larger proportion of Blacks than Whites did not have a high school diploma (33 percent vs. 21 percent).

Significant change in the education level of the population has occurred over the last half century. Of individuals age 65 and over, 48 percent had not completed high school, whereas only 12 percent of people ages 25 to 34 had not completed high school. Although only 13 percent of people age 65 and older had a degree beyond high school, 31 percent of those ages 25 to 34 had already obtained a post-secondary degree.

### Degree Level and Economic Status

It is often assumed that there is some positive economic return associated with the attainment of higher education, aside from the personal enrichment and value that one derives from additional schooling. In some instances, a specific degree may be a formal requirement for a job or a promotion.

There are three basic measures of economic status for the degree categories:

- Mean monthly income – total income received by the person during the 4 observation months of the survey, divided by 4. Income includes wages and salary, as well as pensions, paid benefits, interest, and dividends.
- Mean monthly earnings – the total of all earnings over the 4-month period divided by the number of months in which earnings were actually received. This is done because of jobs that are just beginning or ending, are seasonal, or may not pay on a regular monthly basis.
- Number of months with work activity – based on the total number of months during the 4 months before the interview month, when the individual held a job for any amount of time.

The table shows the estimates of these three measures for each of the degree groups for all people age 18 and older. The highest values for mean monthly income were reported by individuals with professional or doctoral degrees, whereas the lowest were reported by those with vocational degrees.

The relationship between education and economic return is confirmed by these data. Most degrees beyond high school resulted in significantly higher income and earnings than the next lower degree.

Source: Canner, G.B., and Luckett, C.A., 1991, Payment of household debts, *Federal Reserve Bulletin* 77(4):218-229.



Also, the mean income and earnings measures for people with only a high school diploma were substantially larger than for those who did not finish high school.

The third measure, months with work activity, showed that there were differences between some degree levels with regard to employment. On average, people with associate degrees or higher held jobs in 3 of the 4 months surveyed, whereas those who were not high school graduates held jobs in fewer than half the surveyed months.

At each degree level, there were substantial differences in earnings between men and women, with the mean amounts for men always higher than for women. (The small sample size did not allow for a comparison at the doctoral level.) Comparisons between Whites and Blacks, made at the master's, bachelor's, associate, and vocational degree levels, showed the mean monthly income of Whites was significantly larger than for Blacks at all levels.

### Degrees and Fields of Study

As part of the survey, people were asked to indicate the field of study in which their highest degree was received, with 20 possible choices. Some fields, such as law and medicine, were clearly associated with one or two degree types, whereas others, such as business and education, were represented at several different degree levels. The largest degree fields were business and education, which accounted for 19 and 14 percent of all degrees. About 56 percent of all professional and doctoral degrees were in two fields — law and medicine/dentistry. The largest percentage of master's degrees were in education (28 percent).

There were differences between the sexes with respect to degree fields. A degree in business was held by 23 percent of men with degrees, compared with 14 percent of women.

### Four-month average income, earnings, and work activity, by educational attainment: Spring 1987

Educational attainment	Monthly income	Monthly earnings	Months with work activity
<b>All men and women,</b>			
<b>18 years and over . . . . .</b>	<b>\$1,325</b>	<b>\$1,075</b>	<b>2.55</b>
Doctorate . . . . .	4,118	3,637	3.40
Professional . . . . .	4,323	4,003	3.45
Master's . . . . .	2,776	2,378	3.38
Bachelor's . . . . .	2,109	1,829	3.18
Associate . . . . .	1,630	1,458	3.18
Vocational . . . . .	1,417	1,088	2.84
Some college, no degree . . . .	1,283	1,088	2.81
High school graduate only . . .	1,135	921	2.61
Not a high school graduate . . .	761	452	1.58

Source: U.S. Department of Commerce, Bureau of the Census, 1990, *What's It Worth? Educational Background and Economic Status: Spring 1987*, Current Population Reports, Household Economic Studies, Series P-70, No. 21.

Likewise, a degree in engineering was held by 15 percent of men with degrees, compared with 1 percent of women. The largest degree field for women was education, with 22 percent of women, and second was nursing/pharmacy/technical health, with 16 percent. The proportions of men's degrees in these two fields were 7 and 2 percent.

### Fields of Study and Economic Status

Many students choose a field of academic study based on the perceived economic rewards that may accrue from a degree in that field. In all fields, people with a degree beyond high school had substantially larger average monthly incomes than did those with a high school diploma only (\$2,201 vs. \$1,135).

The data for advanced degrees showed that the largest monthly incomes were associated with medicine/dentistry, physical and earth sciences, law, business, and engineering. People with advanced degrees in liberal arts/humanities had the lowest incomes of all advanced degree holders.

The pattern was different for holders of bachelor's degrees because there were relatively few such degrees in medicine and law. Some of the largest average monthly incomes for bachelor's degree holders were reported in the fields of economics, engineering, mathematics, and statistics, whereas those with bachelor's degrees in home economics, education, and English had the lowest monthly average incomes.

Source: U.S. Department of Commerce, Bureau of the Census, 1990, *What's It Worth? Educational Background and Economic Status: Spring 1987*, Current Population Reports, Household Economic Studies, Series P-70, No. 21.

**Public Law 102-62** – creates the National Council on Education Standards and Testing. A commission will be formed to study both the feasibility and the desirability of national education standards and a system of national examinations. Other provisions of the law will:

- Enacted June 27, 1991.

- Authorizes grants to States for training and technical assistance in Federal, State, and local literacy programs.

- Enacted July 25, 1991.

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# Current Regional Research Project

## S-194. Barriers and Incentives to Affordable Housing

**Administrative adviser:**  
Dr. Peggy Meszaros  
University of Kentucky  
Lexington, KY 40506-0050

**Cooperating States (Universities):**  
Auburn University (Alabama),  
University of Arkansas, University  
of Georgia, North Carolina A&T  
State University, Oklahoma State  
University, University of Tennessee,  
Virginia Polytechnic Institute and  
State University

**Project dates:** October 1984  
to September 1990

**Objectives:** To assess institutional and infrastructural barriers and incentives to community acceptance of innovations in housing design, construction, and financing. To develop a conceptual model that delineates the interrelationships and interactions of the various barriers and incentives.

**Approach:** In each cooperating State, surveys were conducted in four communities with populations lower than 10,000. Communities were selected based on current tolerance to innovations in housing. Housing consumers and housing intermediaries (builders, lenders, regulators) were surveyed about their knowledge of innovations in housing, acceptability of alternative housing, and barriers and incentives to affordable housing in their communities. A case study format was used. Statistical procedures included factor analysis, analysis of variance, and multiple regression. Findings were incorporated in a

model representing important considerations and practices that can serve to predict community acceptance of housing innovations.

**Progress:** Data on housing quality and affordability as a community function were collected in 28 selected southern communities. Data were coded and analyzed. Theoretical models were developed to identify demographic and attitudinal variables that appear to contribute to housing quality, affordability, and diversity. Findings on a regional and State level were reported in journals and at several professional meetings, including the annual meetings of the American Home Economics Association, the Rural Sociological Society, the American Association of Housing Educators, and the USDA Outlook Conference.

### Findings:

- Differences in perceptions and concerns of housing consumers and housing intermediaries reinforce the need to create community awareness and common goals.
- Housing consumers who were more receptive toward innovation in housing tended to be younger, female, and minority. Housing intermediaries in small rural communities were typically relatively young, well-educated White males; racial minorities, females, and the elderly were not proportionally represented in positions of influence.
- There was limited knowledge, acceptance, and exposure to newer housing types. Support for manufactured housing and land-use modifications to allow manufactured housing was limited.

- Public water and sewer and housing and building codes indicated community interest in providing affordable housing. A low vacancy rate and lack of rental housing for large families were perceived as barriers.
- Traditional Federal programs that promote home ownership were received more positively by intermediaries than were more innovative local programs that would assist low-income households or programs for renters.
- Rural Appalachian respondents, compared with rural non-Appalachian groups, had more education, higher household income, higher house values, and higher incidence of nonmortgaged ownership, and they expressed a greater interest in solar and earth-sheltered housing.

### Selected publications:

- Bird, G.A., Day, S.S., and Cavell, M. 1990. Housing and household characteristics of single- and dual-earner families. *Home Economics Research Journal* 19(1):29-37.
- Beamish, J.O., McCray, J.W., Weber, M.J., and Brewer, G. 1989. Housing values of southern rural households. Monograph S-194, Southern Regional Technical Committee, 89 (Serial No. 1), Auburn University, AL.
- McCray, J.W., Weber, M.J., and Claypool, P.L. 1987. A housing decision model – Development and application. *Housing and Society* 14(1):51-69.
- Gruber, K.J. and Shelton, G.G. 1987. Assessment of neighborhood satisfaction by residents of three housing types. *Social Indicators Research* 19(3):303-315.



# Data Sources

## Survey of Consumer Finances

**Sponsoring agency:** Board of Governors of the Federal Reserve System

**Population covered:** U.S. civilian noninstitutionalized households

**Sample size:** Variable, about 3,500 households

**Geographic distribution:** Coterminous United States

**Years data collected:** Annually 1946-70, 1962 (Survey of Financial Characteristics), 1977, 1983, 1986, 1989

**Method of data collection:** Personal or telephone interview

**Future surveys planned:** Survey proposed for 1992

**Major variables:** Demographic characteristics, housing tenure, employment history, income, wealth, pensions, debt, respondents use and understanding of credit and financial services.

**Publications:** Reports are published in the *Federal Reserve Bulletin*.

**Source for further information and data:** Data tapes are available from:

Survey Research Center  
University of Michigan  
Ann Arbor, MI 48106

or

National Technical Information Service  
U.S. Department of Commerce  
5285 Port Royal Road  
Springfield, VA 22161  
(703) 487-4807

General information and questions about the survey and the data may be directed to:

Survey Research Center

or:

Monetary and Financial Studies, Stop 180  
Federal Reserve Board  
21st and C Street, NW  
Washington, DC 20551  
(202) 452-2992

## American Housing Survey (AHS)

**Sponsoring agency:** U.S. Department of Commerce

**Population covered:** U.S. households

**Sample size:** About 60,000 housing units

**Geographic distribution:** Nationwide and 44 Metropolitan Statistical Areas (MSA)

**Years data collected:** Annually between 1973 and 1981 (called the Annual Housing Survey), 1983, 1985, 1987, and 1989

**Method of data collection:** Questionnaire

**Future surveys planned:** Every 2 years

**Major variables:** General housing characteristics, housing and neighborhood quality cross-classified by financial characteristics, recent mover households, and energy-related characteristics. Demographic characteristics of owner and renter household members including income by source, attitudes affecting housing decisions, housing and neighborhood quality, housing costs, and region.

**Publications:** Findings from the AHS are published in "Current Housing Reports." The national level reports are H-150 and H-151. Reports H-170 and H-171 are published for selected MSA's. For additional information on available reports, contact the Housing and Household Economics Statistics Division (see box).

**Source for further information and data:** Data tapes available at 1600 or 6250 bpi from:

Data User Services Division  
Customer Services Branch  
Bureau of the Census  
Washington, DC 20233

Questions regarding the survey may be directed to:

Housing and Household Economics Statistics Division  
Bureau of the Census  
Washington, DC 20233  
(301) 763-8551

# Cost of Food at Home

Cost of food at home estimated for food plans at four cost levels, September 1991, U.S. average<sup>1</sup>

Sex-age group	Cost for 1 week				Cost for 1 month			
	Thrifty plan	Low-cost plan	Moderate-cost plan	Liberal plan	Thrifty plan	Low-cost plan	Moderate-cost plan	Liberal plan
<b>FAMILIES</b>								
Family of 2: <sup>2</sup>								
20 - 50 years .....	\$48.60	\$60.90	\$75.10	\$93.10	\$210.70	\$264.40	\$325.40	\$403.30
51 years and over .....	46.10	58.60	72.20	86.10	199.50	254.00	312.40	373.20
Family of 4:								
Couple, 20 - 50 years and children—								
1 - 2 and 3 - 5 years .....	71.00	88.00	107.50	131.60	307.70	381.90	465.20	570.60
6 - 8 and 9 - 11 years .....	81.20	103.50	129.30	155.30	352.10	448.50	559.80	673.20
<b>INDIVIDUALS<sup>3</sup></b>								
Child:								
1 - 2 years .....	12.90	15.60	18.20	21.90	56.00	67.70	78.60	95.10
3 - 5 years .....	13.90	17.00	21.00	25.10	60.20	73.80	90.80	108.90
6 - 8 years .....	16.90	22.50	28.20	32.70	73.30	97.40	122.10	141.90
9 - 11 years .....	20.10	25.60	32.80	38.00	87.30	110.70	141.90	164.70
Male:								
12 - 14 years .....	20.80	28.90	36.00	42.30	90.30	125.40	156.00	183.30
15 - 19 years .....	21.70	29.90	37.10	43.00	93.90	129.60	160.60	186.30
20 - 50 years .....	23.20	29.50	36.90	44.60	100.50	128.00	159.70	193.10
51 years and over .....	21.10	28.10	34.50	41.30	91.40	121.60	149.40	178.80
Female:								
12 - 19 years .....	21.10	25.00	30.20	36.50	91.60	108.30	131.00	158.30
20 - 50 years .....	21.00	25.90	31.40	40.00	91.00	112.40	136.10	173.50
51 years and over .....	20.80	25.20	31.10	37.00	90.00	109.30	134.60	160.50

<sup>1</sup>Assumes that food for all meals and snacks is purchased at the store and prepared at home. Estimates for the thrifty food plan were computed from quantities of foods published in *Family Economics Review* 1984(1). Estimates for the other plans were computed from quantities of foods published in *Family Economics Review* 1983(2). The costs of the food plans are estimated by updating prices paid by households surveyed in 1977-78 in USDA's Nationwide Food Consumption Survey. USDA updates these survey prices using information from the Bureau of Labor Statistics, *CPI Detailed Report*, table 4, to estimate the costs for the food plans.

<sup>2</sup>Ten percent added for family size adjustment. See footnote 3.

<sup>3</sup>The costs given are for individuals in 4-person families. For individuals in other size families, the following adjustments are suggested: 1-person—add 20 percent; 2-person—add 10 percent; 3-person—add 5 percent; 5- or 6-person—subtract 5 percent; 7- or more-person—subtract 10 percent.

# Consumer Prices

Consumer Price Index for all urban consumers [1982-84 = 100]

Group	Unadjusted indexes			
	September 1991	August 1991	July 1991	September 1990
All items .....	137.2	136.6	136.2	132.7
Food .....	136.0	136.0	136.5	133.2
Food at home .....	134.9	134.9	136.0	132.9
Food away from home .....	138.9	138.7	138.4	134.6
Housing .....	134.7	134.5	134.2	130.5
Shelter .....	147.4	147.3	146.8	142.3
Renters' costs <sup>1</sup> .....	156.2	158.1	157.4	148.9
Homeowners' costs <sup>1</sup> .....	151.6	150.7	150.2	147.0
Household insurance <sup>1</sup> .....	138.9	139.0	138.7	135.7
Maintenance and repairs .....	126.8	127.2	126.9	124.6
Maintenance and repair services .....	130.7	130.5	130.1	129.9
Maintenance and repair commodities .....	121.6	122.8	122.7	117.3
Fuel and other utilities .....	116.8	116.2	116.4	114.0
Fuel oil and other household fuel commodities .....	88.9	87.8	87.8	104.4
Gas (piped) and electricity .....	115.5	114.7	115.4	112.4
Household furnishings and operation .....	116.4	116.2	116.3	113.8
Housefurnishings .....	107.7	107.6	108.0	106.9
Housekeeping supplies .....	129.4	129.0	128.9	126.2
Housekeeping services .....	128.6	127.9	127.7	121.1
Apparel and upkeep .....	131.3	127.6	125.2	126.8
Apparel commodities .....	129.1	125.2	122.6	124.7
Men's and boys' apparel .....	126.3	123.2	120.7	121.7
Women's and girls' apparel .....	131.3	125.3	121.7	127.0
Infants' and toddlers' apparel .....	129.4	129.7	129.4	127.7
Footwear .....	122.2	120.2	119.3	118.6
Apparel services .....	143.8	143.5	143.4	138.7
Transportation .....	123.8	123.8	123.4	123.0
Private transportation .....	122.1	122.0	121.7	121.4
New vehicles .....	124.8	125.1	125.6	119.6
Used cars .....	119.8	120.0	120.4	118.3
Motor fuel .....	99.8	99.3	98.2	112.0
Automobile maintenance and repair .....	137.8	136.9	136.4	131.5
Other private transportation .....	149.7	149.7	149.0	143.0
Other private transportation commodities .....	104.2	104.4	104.2	102.2
Other private transportation services .....	159.9	159.9	159.1	152.0
Public transportation .....	146.6	147.6	146.7	144.0
Medical care .....	179.7	178.9	177.5	165.8
Medical care commodities .....	180.0	178.9	177.7	166.0
Medical care services .....	179.7	178.9	177.5	165.8
Professional medical services .....	167.9	167.1	166.1	158.2
Entertainment .....	140.2	139.2	138.6	134.1
Entertainment commodities .....	130.1	129.3	128.6	124.9
Entertainment services .....	152.7	151.6	151.1	145.5
Other goods and services .....	175.8	172.2	170.8	162.6
Personal care .....	135.6	135.5	135.2	131.3
Toilet goods and personal care appliances .....	133.4	134.0	133.5	128.8
Personal care services .....	137.8	136.9	136.9	133.9
Personal and educational expenses .....	190.2	183.9	181.6	175.1
School books and supplies .....	184.5	180.6	179.4	173.8
Personal and educational services .....	190.8	184.3	182.0	175.4

<sup>1</sup>Indexes on a December 1982 = 100 base.

Source: U.S. Department of Labor, Bureau of Labor Statistics.



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# Highlights

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**Earnings Contribution of Employed Teens  
and Young Adults**

**Money Contributions**

**Savings**

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